GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

Municipal Secondary Market Disclosure Information Cover Sheet
Municipal Securities Rulemaking Board (MSRB)
Electronic Municipal Market Access System (EMMA)

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

____

____

____

Nine-digit CUSIP* numbers if available, to which the information relates:

____

____

THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: **Puerto Rico Public Buildings Authority**

Other Obligated Person's Name (if any): ______________________________

Six-digit CUSIP* number(s): **745235**

TYPE OF INFORMATION PROVIDED:

A. ☐ **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**

Fiscal Period Covered: ______________________________

B. ☒ **Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

Fiscal Period Covered: 2015-16

C. ☐ **Notice of Failure to Provide Annual Financial Information as Required:** ______________________________

I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Sebastián M. Torres Rodríguez

Sebastián M. Torres Rodríguez
Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for the Commonwealth

Dated: April 8, 2019

FAFAA

PUBLIC BUILDINGS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITORS' REPORT
AND
BASIC FINANCIAL STATEMENTS AND
OTHER SUPPLEMENTARY INFORMATION

For the fiscal years ended June 30, 2016 and 2015

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
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FOR THE FISCAL YEARS ENDED JUNE 30, 2016 and 2015

BDO

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico):

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Public Buildings Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, which comprise the statements of net position as of June 30, 2016 and 2015, the related statements of revenues, expenses and changes in net position, statements of cash flows for the years then ended, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion and Note Disclosure Regarding Pensions

As discussed in Note 20 to the basic financial statements, the Authority has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (Statement 68).* Accordingly, the Authority has not been able to determine and account for its proportionate share of net pension liability, deferred inflow of resources and deferred outflow of resources related to pension costs, and has not recognized the effect of current period changes in net pension liability, deferred outflow of resources and deferred inflow of resources as these relate to pension costs. Accounting principles generally accepted in the United States of America require that pension related liability, deferred outflow of resources and deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expense. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, deficit, and pension expenses has not been determined.

The accompanying notes to basic financial statements do not disclose the pension cost information required by Statement No. 68. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter described above in the Basis for Qualified Opinion and Note Disclosure Regarding Pensions paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Buildings Authority as of June 30, 2016 and the changes in its financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth) and of the Government Development Bank for Puerto Rico (GDB)

As discussed in Notes 3, 6 and 11 to the basic financial statements, the Authority has significant balances and transactions with the Commonwealth and GDB. As of June 30, 2016, the financial condition and liquidity of the Commonwealth and GDB has deteriorated and, therefore, the collectibility of amounts receivable from the Commonwealth for the payments to be made to GDB may be affected. Considering the relationship of the Authority with the Commonwealth and GDB, the Authority's financial condition and liquidity could be similarly affected. The Authority has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth and GDB on its basic financial statements and operations, and has concluded that, as of June 30, 2016, the Authority will continue to operate as a going concern for a period not less than twelve months after such date.

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Other Matters

Required Supplementary Information Omitted

The Authority has omitted the *Schedule of Public Buildings Authority's Proportionate Share of the Net Pension Liability*, and the *Schedule of Public Buildings Authority's Contributions to the Employees' Pension Plan*, information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 20 and the schedule of funding progress for post-employment healthcare benefits on page 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of bond sinking funds accounts and the schedule of operating rental revenues on pages 64 and 65, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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The schedule of bond sinking funds accounts and the schedule of operating rental revenues are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BDO Puerto Rico P.S.C.

San Juan, Puerto Rico

April 25, 2018
Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2018
Stamp No. E315301 of the P.R.Society of
Certified Public Accountants has been
affixed to the file copy of this report

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

Introduction

As management of the Public Buildings Authority ("the Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

- The Authority's deficit increased by $255.8 million or 87.4% during the year ended June 30, 2016. For the year ended June 30, 2015, the deficit increased by $12.2 million or 4.4%. For the year ended June 30, 2016, the Authority reported a decrease in rental income of $201.5 million. For the year ended June 30, 2015, the Authority reported a decrease in rental income of $4.8 million. During the year ended June 30, 2016, the Authority reduced the rent revenue by $222.5 million that resulted from a more conservative estimate for uncollectible amounts due from the Commonwealth. During the year ended June 30, 2015, the Authority reduced the rent revenue by $2.5 million for estimated uncollectible amounts. During the year ended June 30, 2016, the Authority charged the debt service rental by $13.4 million for repayment of GDB Line of Credit. During the year ended June 30, 2016, operating expenses decreased by $2.6 million or 1.2%. During the year ended June 30, 2015, operating expenses decreased by $13.3 million or 5.7%.

- The Authority's operating income decreased from $186.8 million for the year ended June 30, 2015 to an excess of expenses over revenues amounting $12.1 million for the year ended June 30, 2016, mostly due to the reduction of rent revenue of $222.5 million, for estimated uncollectible amounts.

- The Authority's non-operating revenues decreased from $42.1 million for the year ended June 30, 2015 to $37.7 million for the year ended June 30, 2016 mostly due to the decrease in the operating grants of $4.4 million received from the Commonwealth of Puerto Rico ("the Commonwealth") to pay interest expenses generated in prior year by operational line of credit with GDB.

- The Authority's non-operating expenses increased from $241.2 million for the year ended June 30, 2015 to $281.3 million for the year ended June 30, 2016 mostly due to the custodial credit risk loss on deposits held with GDB amounting to $40.6 million.

Overview of the Basic Financial Statements

The Authority's basic financial statements consist of: Management's Discussion and Analysis ("MD&A"), Basic Financial Statements, Notes to Financial Statements, Required Supplementary Information and Other Supplementary Information.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

Management's Discussion and Analysis

The management's discussion provides an analysis to assist the readers in focusing on the significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Authority's basic financial statements.

Basic Financial Statements

The *Statement of Net Position* presents financial information on all of the Authority's assets, deferred outflow of resources, and liabilities with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets, without a corresponding increase to liabilities, result in a net position increase, which also indicates an improved financial position.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the Authority's net position changed during the period and are reported as soon the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing activities, capital and related financing activities, and investing activities.

The *Notes to the Financial Statements* provide additional information that is essential to the full understanding of the data provided in the basic financial statements.

Required Supplementary Information

The required supplementary information provides information concerning the Authority's progress in funding of postemployment healthcare benefits to employees.

Other Supplementary Information

In addition to the basic financial statements, accompanying notes and required supplementary information, various schedules present certain information concerning changes in bond sinking funds accounts and detail of operating rental revenues.

Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Authority, the deficit at June 30, 2016, 2015 and 2014 amounted to approximately $548.5 million, $292.7 million, and $280.5 million, respectively.

PUBLIC BUILDINGS AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

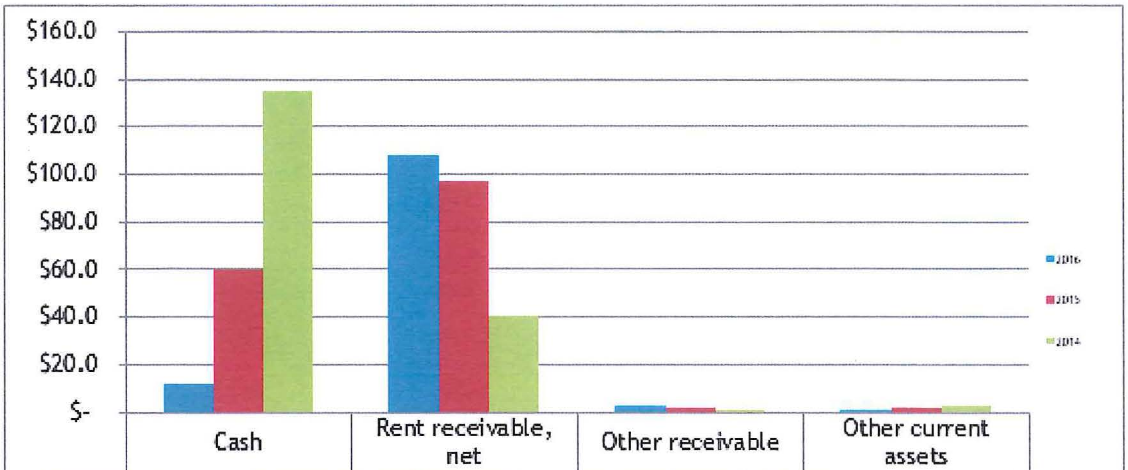
Statements of Net Position

Following is condensed financial information of the Authority's statements of net position:

	June 30,		
	2016	2015	2014
Assets			
Current assets	$ 123,085,453	$ 160,856,633	$ 178,375,177
Capital assets	3,509,135,717	3,584,576,037	3,595,354,158
Other non-current assets	203,911,657	433,538,581	499,394,050
Total assets	3,836,132,827	4,178,971,251	4,273,123,385
Deferred loss on bonds defeased	98,828,558	107,602,547	116,376,535
Total assets and deferred outflows of resources	3,934,961,385	4,286,573,798	4,389,499,920
Liabilitites			
Current liabilities	$ 263,510,085	$ 274,382,923	$ 266,895,799
Non-current liabilities	4,219,982,964	4,304,905,231	4,403,071,175
Total liabilities	4,483,493,049	4,579,288,154	4,669,966,974
Deficit			
Net investment in capital assets,	(103,044,918)	31,690,664	20,160,084
Restricted	-	8,800,871	11,525,693
Deficit	(445,486,746)	(333,205,891)	(312,152,831)
Total Deficit	$ (548,531,664)	$ (292,714,356)	$ (280,467,054)

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

Current assets (in millions)



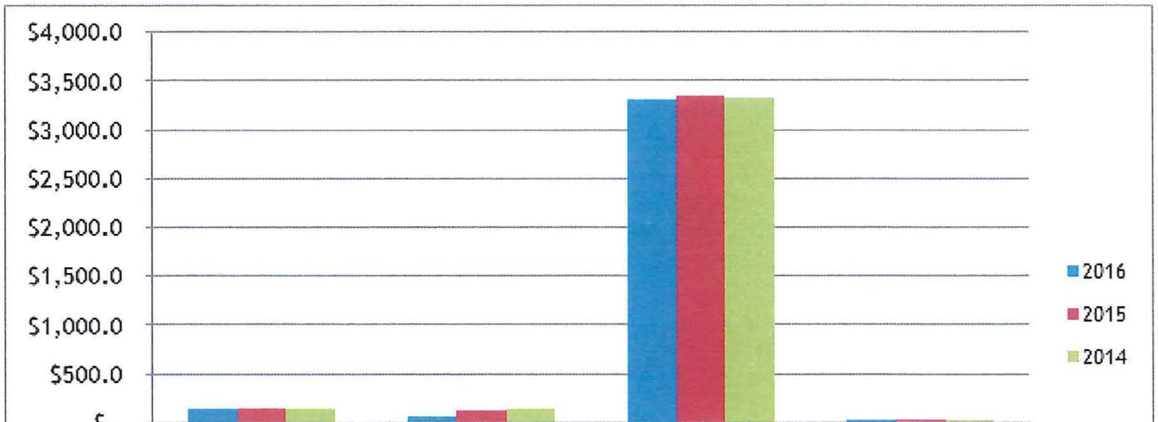
	Cash	Rent receivable, net	Other receivable	Other current assets
2016	$11.7	$107.9	$2.5	$1.0
2015	60.4	97.0	2.1	1.4
2014	135.1	40.4	0.7	2.2

When comparing June 30, 2016 with June 30, 2015, current assets decreased by $37.8 million or 23.5%. This decrease results principally by a decrease in cash and cash equivalent of approximately $48.7 million, mainly related to decrease in the certificates of deposit balance and the custodial credit risk loss on deposits held with GDB amounting to $40.6 million.

When comparing June 30, 2015 with June 30, 2014, current assets decreased by approximately $17.5 million or 9.8%. This decrease results principally by a decrease in cash and cash equivalent of approximately $74.7 million, as a result of decrease in the certificates of deposit balance deposited at commercial bank and GDB.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

Capital assets (in millions)



	Land	Construction in process	Buildings, net	Equipment and vehicles, net
2016	$129.6	$62.1	$3,314.1	$3.3
2015	129.6	111.9	3,340.0	3.1
2014	129.5	136.4	3,326.4	3.1

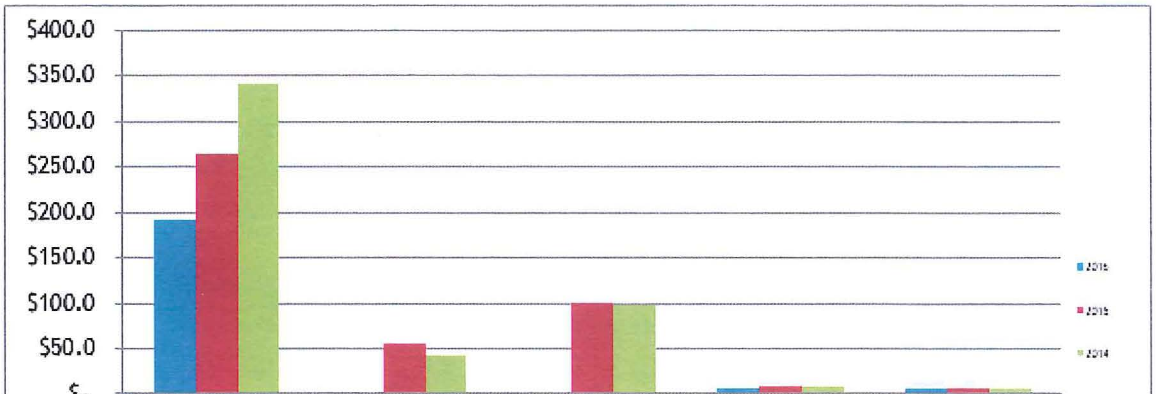
Construction in progress consists principally of costs incurred, including capitalized interest and administrative costs, in the construction of new facilities or improvement to existing facilities. During the year ended June 30, 2012, the Authority commenced with the 21st Century School Program (the School Program), which consists of the construction or improvement of over 100 public schools.

The Authority contracted the services of Puerto Rico Infrastructure Financing Authority (AFI, for its acronym in Spanish), a component unit of the Commonwealth, to serve as construction manager. Under the contract, AFI is responsible for the management of the program including, among others, contracting general contractors and/or subcontractors, inspection, supervision and acceptance of the remodeled schools and, in certain cases, provides maintenance to the schools. AFI bills the Authority the cost of the program plus an administrative fee.

At June 30, 2016, 2015 and 2014 construction in progress includes approximately $399 thousand, $31.9 million, and $88.9 million, respectively related to the School Program.

When facilities under construction are completed, the cost of the facility is transferred to the buildings account where the Authority commences to record depreciation on the facility and charges rent to the facility's tenants.

Other non-current assets (in millions)



	Restricted cash	Rent receivable, net	Due from Commonwealth of Puerto Rico, net	Bonds issued cost and bond prepaid insurance	Other
2016	$191.1	$-	$-	$7.4	$5.4
2015	263.6	54.8	101.0	8.1	6.1
2014	341.8	43.5	98.9	8.7	6.6

Restricted cash consists principally of cash or invested cash deposited in bond sinking funds and construction funds. Amounts deposited in bond sinking funds are restricted for the payment of bonds principal and interest. Amounts deposited in construction funds are restricted for the payment of costs incurred in the construction of new facilities or the improvements of existing facilities.

During the years ended June 30, 2016 and 2015, restricted cash and cash equivalents decreased by approximately $68.9 million and $78.2 million or 27% and 23%, respectively, principally due to a decrease in construction fund for monies used to finance the cost of facilities constructed during the year, especially the schools under the School Program and the loss on custodial credit risk amounting to $12.4 million during year 2016.

Rent receivable included as non-current assets represents the portion of the amount due by agencies, public corporations and municipalities of the Commonwealth that Authority's management believes that will not be collected during the next twelve (12) months. During the year ended June 30, 2016, non-current rent receivable was fully reserved as uncollectible. During the year ended June 30, 2015, non-current receivable increased by $11.4 million, due to the reduction of payments made by the Commonwealth. At June 30, 2015 this amount is net of an estimated reserve for uncollectible amounts of $20.9 million.

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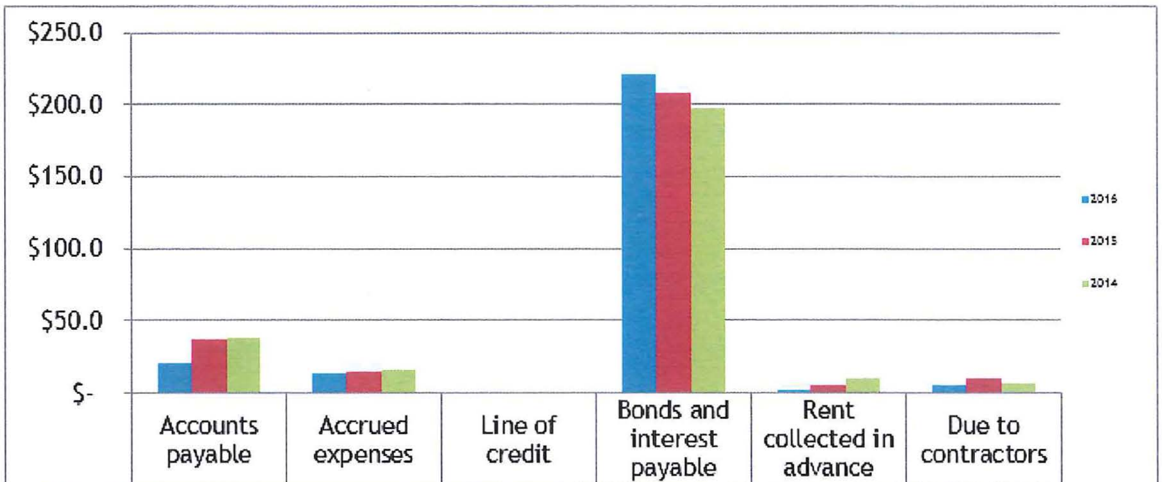
Due from Commonwealth at June 30, 2016, 2015, and 2014 consist of costs incurred in projects that were not completed, and were cancelled by the Commonwealth. The Puerto Rico Office of Management and Budget (OMB) agreed that, subject to certain audit procedures, it will pay this amount to the Authority. At June 30, 2016, the amount of $102.5 million is fully reserved.

Other non-current assets at June 30, 2016, 2015 and 2014 consist primarily of notes receivable from governmental agencies, cost of properties held for sale and costs incurred in the construction of facilities for other governmental agencies.

Current liabilities (in millions)



	Accounts payable	Accrued expenses	Line of credit	Bonds and interest payable	Rent collected in advance	Due to contractors
2016	$21.0	$13.4	$-	$221.0	$2.2	$5.9
2015	36.6	15.2	-	207.6	4.9	10.1
2014	37.9	16.3	0.3	197.8	9.9	6.5

Accounts payable consist of amounts due to suppliers for the acquisition of goods and services. In addition, includes amounts due to governmental agencies and public corporations for electricity and other related services and amount due to AFI.

During the year ended June 30, 2016, rent collected in advance decreased by $2.7 million or 55.1%.

During the year ended June 30, 2015, rent collected in advance decreased by $4.7 million or 49% when compared with fiscal year 2014. The OMB reduced its payments in the fiscal year 2014-2015 for the excess of monies paid in prior years.

Accrued expenses payable includes the current portion of compensated absences, other post-employment benefits, voluntary termination benefits and other accrued expenses such as payroll tax withholdings and the current portion of accrued legal contingencies.

PUBLIC BUILDINGS AUTHORITY
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Bonds and interest payable consist of the current portion of the amounts due at June 30, 2016 and 2015 in accordance with debt repayment schedule.

Due to contractors represents the balance for projects under construction. Normally, the contractors submit progress billings for projects in process and the Authority pays these invoices, except for the retainage portion. This withholding is used as a guarantee that the contractor will complete the project in accordance with contract requirements. Normally the retainage will be paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

Non-current liabilities (in millions)

	Bonds payable	Line of credit	Other
2016	$3,987.2	$182.2	$50.6
2015	4,077.0	178.2	49.7
2014	4,169.4	175.5	58.2

Decrease in bonds payable during the years ended June 30, 2016 and 2015, consist of the payments made during each fiscal year in accordance with the related payment schedule.

The Authority has various line of credit agreements with GDB. Some of the agreements are to provide interim financing for construction of Authority's facilities while others are to finance operations including the financing of debt service requirements under the bonds agreements.

Other non-current liabilities at June 30, 2016 and 2015, mainly consist of the non-current portion of post-retirement employee benefits, legal claims, voluntary termination benefits, and advances from other agencies. These amounts increased in total by $945 thousand: $1.5 million decrease in voluntary termination benefits, $1.9 million increase in other post-employment benefits, $1.3 million increase in compensated absences, increase in legal reserve of $1.3 million, decrease of

$2.4 million in due to contractors and increase in advances from other governmental agencies of $277 thousand. These amounts remained comparable during fiscal years 2016 and 2015.

Statement of Revenues, Expenses and Changes in Deficit

Following is condensed financial information of the Authority's statements of revenues, expenses and changes in deficit:

	Years Ended June 30,		
	2016	2015	2014
REVENUES:			
Operating	205,780,405	407,268,438	412,834,715
Non operating	37,656,576	42,134,794	253,196,092
Total	243,436,981	449,403,232	666,030,807
EXPENSES:			
Operating	217,905,876	220,476,925	234,533,733
Non operating	281,348,413	241,173,609	250,341,474
Total	499,254,289	461,650,534	484,875,207
Change in net position	(255,817,308)	(12,247,302)	181,155,600
Deficit			
Beginning of year	(292,714,356)	(280,467,054)	(461,622,654)
End of year	$ (548,531,664)	$ (292,714,356)	$ (280,467,054)

Operating revenues

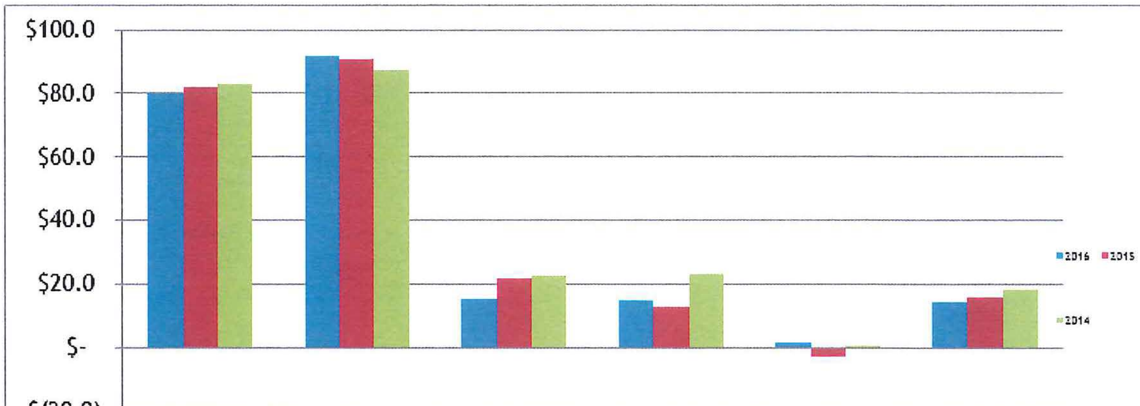
Operating revenues consists principally of rent charges to agencies, public corporations and municipalities of the Commonwealth. Operating revenues decreased $201.5 million from 2015 to 2016 mainly as a result of uncollectible amounts expense recognized of $222.5 for rent receivables by agencies and public corporations of the Commonwealth.

Operating revenue decreased $5.6 million from 2014 to 2015 as a result of the reduction in the estimated rent made by the Commonwealth. In addition, during the year ended June 30, 2015, rental revenue is net of an estimated reserve for uncollectible amounts of $2.5 million.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

Expenses (in millions)

The following chart discloses the major components of operating expenses for the years ended June 30, 2016, 2015 and 2014:



	Salaries and benefits	Depreciation	Utilities	Repairs	Legal reserve	Other
2016	$79.9	$91.6	$15.5	$14.7	$1.8	$14.4
2015	81.8	91.0	21.8	12.9	(2.7)	15.7
2014	83.0	87.3	22.5	23.2	0.3	18.2

During the year ended June 30, 2016, operating expenses decreased by $2.6 million or 1.2% when compared with fiscal year 2015. Salaries and benefits decreased by approximately $1.9 million. Legal reserve expense increased $4.5 million due to an increase in the provision of legal contingencies. Depreciation expense increased by $645 thousand due to increase in projects transferred as completed and started to depreciate. The repairs and maintenance expenses increased by $1.8 million. The other expenses decreased by $1.7 million. Utilities decreased by approximately $6.3 million.

During the year ended June 30, 2015, operating expenses decreased by $13.3 million or 5.7% when compared with fiscal year 2014. Salaries and benefits decreases by approximately $1.2 million. Legal reserve expense decreased by $3.0 million due to a reduction in the provision of legal contingencies. Depreciation expense increased by $3.7 million due to increase in projects transferred as completed and started to depreciate. The repairs and maintenance expenses decreased by $10.2 million. Professional services, included within other expenses decreased by $2.6 million and a reduction of capitalized administered expenses to construction in progress made the effect to decreased expenses by $2.2 million.

Nonoperating expense consists of interest paid and accrued on the Authority's bonds and lines of credit agreements with GDB amounting to $240.8 and $241.2 million during the years ended June 30, 2016 and 2015, respectively. In addition, a custodial credit risk loss amounting to $41 million was recorded during the year ended June 30, 2016.

Non-operating Revenues and/or Expenses

During the years ended June 30, 2016 and 2015, the Authority received a subsidy from the Federal Government in the amount of approximately $36.1 and $36.0 million, respectively, for the payment of interest on Series R and T bonds issued during 2012.

During the years ended June 30, 2016 and 2015, the Authority received operating grants from the Commonwealth to finance operating expenses in the amounts of approximately $832 thousand and $5.3 million, respectively. During the year ended June 30, 2016, the operating grants decreased by $4.4 million.

During the year ended June 30, 2015, the operating grants decreased by $209.1 million mostly due to $192.9 million received in fiscal year 2014 to pay lines of credit balances. For the year ended June 30, 2015 the grant consisted of $4.2 million to pay line of credit granted by GDB to cover payroll and suppliers expense. Also, the Authority received $1.1 million from other legislative grants.

Capital grants

Capital grants consist of annual appropriations from the Commonwealth that are restricted to finance cost of construction or improvement of Authority's facilities.

Capital Assets:

Capital assets as of June 30, 2016 and 2015 consist of:

	June 30,		
	2016	2015	Change
Capital assets not being depreciated			
Land	$ 129,569,461	$ 129,550,969	$ 18,492
Construction in process	62,091,446	111,941,071	(49,849,625)
Total	191,660,907	241,492,040	(49,831,133)
Capital assets being depreciated, net of accumulated depreciation			
Buildings	3,314,131,540	3,339,965,262	(25,833,722)
Equipment and vehicles	3,343,270	3,118,735	224,535
Total	3,317,474,810	3,343,083,997	(25,609,187)
Capital assets net	$ 3,509,135,717	$3,584,576,037	$ (75,440,320)

	June 30,		
	2015	2014	Change
Capital assets not being depreciated			
Land	$ 129,550,969	$ 129,524,461	$ 26,508
Construction in process	111,941,071	136,376,177	(24,435,106)
Total	241,492,040	265,900,638	(24,408,598)
Capital assets being depreciated, net of accumulated depreciation			
Buildings	3,339,965,262	3,326,364,222	13,601,040
Equipment and vehicles	3,118,735	3,089,298	29,437
Total	3,343,083,997	3,329,453,520	13,630,477
Capital assets net	$ 3,584,576,037	$ 3,595,354,158	$ (10,778,121)

June 30, 2016 and 2015

The Authority's investment in capital assets as of June 30, 2016 and 2015 amounted to approximately $3.5 and $3.6 billion, net of accumulated depreciation, respectively. Capital assets include land, land improvements, construction in progress, buildings, equipment, furniture, and vehicles. Most buildings consist of governmental facilities that are leased to the Commonwealth's agencies and public corporations. For more information, please refer to Note 12 of the basic financial statements.

During the years ended June 30, 2016 and 2015, the Authority invested approximately $35.8 million and $86.4 million, respectively, for the construction of buildings that will be leased to the Commonwealth. The decrease of the investment is mainly related to the 21st Century Schools project, which is the most significant construction project for the Authority during the prior year. This construction activity was financed through interim lines of credit with the GDB and the proceeds of the bonds issuances.

June 30, 2015 and 2014

The Authority's investment in capital assets as of June 30, 2015 and 2014 amounted to approximately $3.6 billion, net of accumulated depreciation. Capital assets include land, land improvements, construction in progress, buildings, equipment, furniture, and vehicles. Most buildings consist of governmental facilities that are leased to the Commonwealth's agencies and public corporations. For more information, please refer to Note 12 of the basic financial statements.

During the years ended June 30, 2015 and 2014, the Authority invested approximately $86.4 million and $74.8 million, respectively, for the construction of buildings that will be leased to the Commonwealth. The increase of the investment is mainly related to the 21st Century Schools project, which is the most significant construction project for the Authority during the fiscal year. This construction activity was financed through interim lines of credit with the GDB and the proceeds of the bonds issuances.

Debt Administration

Debt consists principally of bonds payable, net of related unamortized bond discount or premiums, and borrowings under line of credit agreements with GDB. Debt was issued principally to finance capital assets and to finance operating expenses and is summarized as follows:

	June 30,		
	2016	2015	Change
Revenue bonds	$ 37,315,000	$ 37,315,000	$ -
Government facilities	4,028,647,000	4,110,647,000	(82,000,000)
Total	4,065,962,000	4,147,962,000	(82,000,000)
Add (deduct):			
Bond discounts	(25,246,416)	(26,597,576)	1,351,160
Bond premiums	32,598,039	37,667,809	(5,069,770)
Deferred loss on bonds defeased	-	-	-
Total	7,351,623	11,070,233	(3,718,610)
Bonds payable net	4,073,313,623	4,159,032,233	(85,718,610)
Lines of credit with GDB	182,160,106	178,183,854	3,976,252
Total debt	$ 4,255,473,729	$ 4,337,216,087	$ (81,742,358)

	June 30,		
	2015	2014	Change
Revenue bonds	$ 37,315,000	$ 37,315,000	$ -
Government facilities	4,110,647,000	4,193,282,000	(82,635,000)
Total	4,147,962,000	4,230,597,000	(82,635,000)
Add (deduct):			
Bond discounts	(26,597,576)	(27,949,784)	1,352,208
Bond premiums	37,667,809	43,496,799	(5,828,990)
Deferred loss on bonds defeased	-	-	-
Total	11,070,233	15,547,015	(4,476,782)
Bonds payable net	4,159,032,233	4,246,144,015	(87,111,782)
Lines of credit with GDB	178,183,854	175,453,091	2,730,763
Total debt	$ 4,337,216,087	$ 4,421,597,106	$ (84,381,019)

June 30, 2016 and 2015

During the year ended June 30, 2016, bonds payable decreased by approximately $82.0 million before amortization of bonds discount and premiums due to schedule of principal payments on bonds. During fiscal year 2016, the Authority did not made payments for available line of credits;

proceeds were obtained for $3.9 million. Also, scheduled interest for the year on such line of credits were not paid.

June 30, 2015 and 2014

During the year ended June 30, 2015, bonds payable decreased by approximately $82.6 million before amortization of bonds discount and premiums due to schedule of principal payments on bonds. During fiscal year 2015, the Authority did not made payments for the available line of credits, proceeds were obtained for $2.8 million. However, payments of interests were made for $4.2 million. Source of repayment came from funds received from the Commonwealth of Puerto Rico's bond issuances.

Current Known Facts

Failure to Implement Requirements of New Accounting Standard for Pensions

As disclosed in Note 20 to the basic financial statements, the Authority was not able to implement the requirements of Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pension, (GASB 68). The Authority's inability to implement the requirements of GASB 68 resulted from the unavailability of the required information that was expected to be provided by The Employee Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System"), a pension trust fund of the Commonwealth, which is not under the Authority's management and control. Therefore, as of the date of this report, it is not known when the required information shall be provided to enable Authority to implement the requirements of GASB 68 and, therefore, the Authority is not able to determine the possible impact on its basic financial statements. This situation resulted in the expression of a qualified opinion from our external auditors.

Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth) and the Government Development Bank for Puerto Rico (GDB)

As disclosed in Note 3, the financial condition and liquidity of the Commonwealth and GDB has deteriorated and, therefore, the collectability of certain amounts due from the Commonwealth that are designated for the payment of certain amounts due to GDB may not be collected. Considering the relationship of the Authority with the Commonwealth and GDB, the Authority's financial condition and liquidity could be similarly affected. The Authority has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth and GDB on its basic financial statements and operations, and has concluded that, as of June 30, 2016, the Authority will continue to operate as a going concern for a period not less than twelve months after such date.

Effects of Hurricanes Irma and María

On September 6, 2017 Hurricane Irma passed north of Puerto Rico and on September 20, 2017 Puerto Rico got a direct hit from Hurricane Maria. The Authority's properties were severely affected, and the estimated loss has not been yet determined.

In order to give out purchase orders to contractors and be able to start to fix the damages caused of its properties, obtained an advance of $5 million from the insurance company. The insurance company will pay to the Authority their insurance coverage for the damages, then, the Federal Emergency Management Agency (FEMA) will refund to the Authority a deductible amount or copayment amount for actual paid costs. The Authority expects to recapture from the Insurance Company and FEMA the amount completely to set the properties as before the Hurricanes.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances for all those interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Comptroller's Office, Public Buildings Authority, PO Box 41029, San Juan, PR 00940-1029.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET POSITION (DEFICIT)
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents, net of custodial credit risk loss reserve of $28,162,468 in year 2016	$ 11,698,832	$ 60,388,744
Rent receivable, net of allowance for uncollectible accounts	107,925,406	96,975,860
Other receivables, net of allowance for uncollectible accounts	2,450,986	2,051,563
Other current assets	1,010,229	1,440,466
Total current assets	123,085,453	160,856,633
Non-current assets:		
Restricted cash and cash equivalents:		
Bond sinking funds	167,231,893	190,569,274
Cash to be deposited in bond sinking funds, net of custodial credit risk loss reserve amounting to $834,145 in year 2016	-	37,083
Construction funds, net of custodial credit risk loss reserve amounting to $8,322,926 in year 2016	23,903,626	69,519,372
Funds for construction of facilities for other governmental agencies, net of custodial credit risk loss reserve amounting to $3,270,763 in year 2016	-	3,432,928
Rent receivable, net of allowance for uncollectible accounts	-	54,849,179
Due from Commonwealth of Puerto Rico, net of allowance for uncollectible accounts	-	101,012,666
Note receivable from other governmental agency	5,366,086	5,866,739
Prepaid insurance on bonds	7,410,052	8,052,976
Capital assets:		
Land and construction in progress	191,660,907	241,492,040
Buildings, equipment and vehicles, net	3,317,474,810	3,343,083,997
Property held for sale	-	198,364
Total non-current assets	3,713,047,374	4,018,114,618
Total assets	3,836,132,827	4,178,971,251
Deferred Outflows of Resources -		
Deferred loss on bond defeasance	98,828,558	107,602,547
Total assets and deferred outflows of resources	$ 3,934,961,385	$ 4,286,573,798

Continues

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET POSITION (DEFICIT)
JUNE 30, 2016 AND 2015

Continued

LIABILITIES AND NET POSITION (DEFICIT)	2016	2015
Current liabilities:		
Accounts payable	$ 8,215,889	$ 10,727,745
Intergovernmental	9,546,497	12,893,275
Accrued expenses	3,090,596	4,347,542
Rent collected in advance	2,204,411	4,911,371
Accrued legal contingencies	480,724	951,783
Compensated absences	7,833,309	7,469,401
Other post-employment benefits	390,278	524,069
Voluntary termination benefits	1,595,085	1,892,707
Current liabilities payable from restricted assets:		
Bonds payable	86,125,000	82,000,000
Interest payable	134,912,621	125,590,963
Due to contractors	5,902,448	10,122,403
Due to Puerto Rico Infrastructure Financing Authority	3,213,227	12,951,664
Total current liabilities	263,510,085	274,382,923
Non-current liabilities:		
Borrowings under line of credit	182,160,107	178,183,855
Bonds payable	3,987,188,623	4,077,032,233
Advances from other governmental agencies	460,329	183,234
Due to contractors	8,904,067	11,272,886
Accrued legal contingencies	17,376,790	16,096,371
Compensated absences	5,240,833	3,899,177
Other post-employment benefits	15,498,168	13,619,404
Voluntary termination benefits	3,154,047	4,618,071
Total non-current liabilities	4,219,982,964	4,304,905,231
Total liabilities	4,483,493,049	4,579,288,154
Net Position (deficit):		
Net investment in capital assets	(94,389,572)	31,690,664
Restricted for debt service	-	5,551,661
Restricted for other purposes	-	3,249,210
Deficit	(454,142,092)	(333,205,891)
Total deficit	$ (548,531,664)	$ (292,714,356)

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN DEFICIT
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating revenues:		
Rental revenues from governmental agencies, net of uncollectible amounts expense of $222,461,178 and $2,502,868 in years 2016 and 2015, respectively	$ 205,780,405	$ 407,268,438
Operating expenses:		
Salaries and employees' benefits	79,935,123	81,820,723
Depreciation	91,631,886	90,986,837
Utilities	15,486,619	21,768,229
Repairs and maintenance	14,720,632	12,948,530
Voluntary termination benefits	160,624	(269,980)
Security services	1,748,517	2,530,490
Rent and insurance	7,562,804	8,659,520
Legal claims	1,761,144	(2,702,941)
Other, net of capitalized expenses of $14,487 and $2,230,151 in 2016 and 2015, respectively	4,898,527	4,735,517
Total operating expenses	217,905,876	220,476,925
Operating (loss) income	(12,125,471)	186,791,513
Non-operating revenue (expenses):		
Grant for the payment of bonds	36,135,387	35,999,503
Operating grants from Commonwealth of Puerto Rico	831,643	5,254,966
Interest on bonds and notes	(240,758,111)	(241,173,609)
Interest and other income	342,260	665,209
Service charges and other	347,286	215,116
Custodial credit risk loss	(40,590,302)	-
Total nonoperating revenue (expenses)	(243,691,837)	(199,038,815)
Change in deficit	(255,817,308)	(12,247,302)
Deficit:		
At beginning of year	(292,714,356)	(280,467,054)
At end of year	$ (548,531,664)	$ (292,714,356)

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating activities:		
Receipts from tenants	$ 347,559,663	$ 335,325,425
Payments to employees and related benefits	(79,651,270)	(81,639,734)
Payments for goods and services	(50,216,553)	(43,223,720)
Custodial credit risk loss	(28,162,468)	-
Net cash provided by operating activities	189,529,372	210,461,971
Noncapital related financing activities:		
Operating grants from Commonwealth of Puerto Rico	831,643	1,087,952
Other non-operating receipts	213,766	(1,076,274)
Payments of operating line of credits	-	(35,556)
Interest paid	-	(88,254)
Net cash provided by (used in) noncapital related to financing activities	1,045,409	(112,132)
Capital and related financing activities:		
Capital expenditures, net of interest capitalized	(29,793,384)	(86,313,908)
Custodial credit risk loss	(12,427,834)	-
Subsidy from federal government for the payment of bonds	36,135,387	35,999,503
Payment of bonds	(82,000,000)	(82,635,000)
Proceeds from borrowing under line of credits	3,976,252	2,766,319
Interest paid	(238,146,359)	(232,728,736)
Advances from governmental agencies	277,095	-
Proceeds from sale of property	198,364	-
Net change in bonds loss defeased bonds	8,773,989	1,005
Net cash used in capital and related financing activities	(313,006,490)	(362,910,817)
Investing activities		
Net change in amount due from Commonwealth of Puerto Rico	475,746	(1,500,628)
Collection of notes receivable	500,653	486,797
Interest and investment income collected	342,260	665,210
Net cash provided by (used in) investing activities	1,318,659	(348,621)
Net decrease in cash and cash equivalents	(121,113,050)	(152,909,599)
Cash and cash equivalents		
Beginning of year	323,947,401	476,857,000
End of year	$ 202,834,351	$ 323,947,401

Continues

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

Continued

	2016	2015
Reconciliation of cash and cash equivalents presented in the statement of net position:		
Cash and cash equivalents	$ 11,698,832	$ 60,388,744
Restricted cash and cash equivalents:		
Bonds sinking funds	167,231,893	190,569,274
Cash to be deposited in bond sinking funds	-	37,083
Construction funds	23,903,626	69,519,372
Funds for the construction of facilities for other government entities	-	3,432,928
Total cash and cash equivalent	$ 202,834,351	$ 323,947,401
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss) income	(12,125,471)	$ 186,791,513
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	91,631,886	90,986,837
Uncollectible accounts expense	222,461,178	1,774,944
Net change in operating assets and liabilities:		
Rent receivable	(77,974,960)	(69,709,407)
Other current assets	430,237	714,463
Prepaid insurance on bonds	642,924	650,964
Accounts payable and accrued expenses	(4,666,994)	3,989,131
Rent collected in advance	(2,706,960)	(4,736,474)
Custodial credit risk loss	(28,162,468)	-
Net cash provided by operating activities	$ 189,529,372	$ 210,461,971
Summary of Non-Cash Transactions:		
Payment of line of credit and related accrued interest by Commonwealth of Puerto Rico	$ -	$ 4,167,014

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

1. ORGANIZATION

The Public Buildings Authority (the "Authority") is a blended component unit of the Commonwealth of Puerto Rico (the "Commonwealth"), created on June 19, 1958 by Act No. 56, as amended, of the Legislature of Puerto Rico (the "Enabling Act"). The Authority designs, constructs, administers, and provides maintenance to office buildings, courts, warehouses, schools, health care facilities, welfare facilities, shops, and related facilities leased to the Commonwealth or any of its departments, agencies, instrumentalities or municipalities. The annual rent for each leased building is based on the amounts needed by the Authority to cover the payment of:

i) Principal, interest and other amortization requirements of the notes and bonds issued to finance the buildings;
ii) Operating and maintenance expenses of the buildings, including a reasonable proportional share of administrative expenses, excluding depreciation; and,
iii) Cost of equipment replacement and extraordinary repairs

Components (ii) and (iii), described above, are subject to escalation to permit the Authority to recover the costs incurred. Amounts due from departments and governmental agencies of the Commonwealth may be subject to periodic revisions and/or adjustments based on the availability of funds at the Commonwealth level.

The Enabling Act provides that the full faith and credit of the Commonwealth is pledged for the payment of rent under any lease agreement executed pursuant to the Enabling Act with any department of the Commonwealth. The Enabling Act also provides that the Department of the Treasury of the Commonwealth of Puerto Rico (the "Treasury Department") will make advances to the Authority for any unpaid portion of rent payable to the Authority by any agency or instrumentality of the Commonwealth that has entered into lease agreements with the Authority. Such advances are recorded as a reduction of accounts receivable since the responsibility of reimbursement belongs to the agency in accordance to the Enabling Act. This obligation was suspended pursuant the Puerto Rico Emergency Moratorium and Rehabilitation Act and executive orders issued thereunder, as described more fully in Note 24.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Basis of Accounting*** - The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The activities of the Authority are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows, liabilities, net position, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded as incurred.

b. ***Use of Estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

c. ***Fair Value of Financial Instruments*** - The carrying amounts reported in the statements of net position for cash and cash equivalents and receivables, approximate fair value due to their short-term duration. Amounts deposited in bond sinking funds and construction funds are carried at fair value. The carrying amount of bonds payable approximates fair value since interest rates on such debt approximate the rates currently available in the market for other debt with similar terms and remaining maturities.

d. ***Cash and Cash Equivalents*** - Cash and cash equivalents include all highly liquid instruments with maturities of three months or less at the time of acquisition. If such instruments are included in restricted assets, they are considered cash equivalents for purposes of the statements of cash flows.

e. ***Allowance for Uncollectible Accounts*** - The allowance for uncollectible accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, excluding debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the receivables outstanding and the related allowance may change in the near term.

f. ***Restricted Assets and Liabilities Payable from Restricted Assets*** - Restricted assets represent the amounts deposited by the Authority to provide for the principal and interest payments of bonds payable and related interest costs and cash available in the related construction fund. When both restricted and unrestricted resources are available for a specific use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

g. ***Capital Assets*** - Capital assets are recorded at cost. The construction costs include indirect administrative costs and interest costs allocated during the construction period. Capital assets are assets with an individual cost of more than $100 and a useful life in excess of five (5) years. As of June 30, 2016 and 2015, property (excluding cost of land, equipment and construction in progress) with a net book value of approximate $3,315 and $3,340 million, respectively, is leased to other governmental agencies.

Interest cost is capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowings arrangements restricted for the acquisition of qualifying assets is offset against interest cost to determine the net amount to be capitalized. Interest cost is not capitalized on costs paid with the proceeds of grants or donations restricted solely for construction.

Expenditures for major renewals and betterments that extend the useful life of the assets are capitalized and normal repairs and maintenance are expensed when incurred. Depreciation is determined using the straight-line method, over the estimated useful lives of the assets, is as follows:

Buildings	50 years
Equipment and automobiles	5-10 years

h. ***Impairment of Capital Assets*** - A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage, among others.

No impairment allowance was identified during the years ended June 30, 2016 and 2015.

i. ***Property Held for Sale*** - Capital assets that have been identified to be for sale are presented net of accumulated depreciation and net of the incidental cost to dispose or sell such assets.

j. ***Claims and Judgments*** - The estimated amount of the liability for claims and judgments is recorded on the accompanying statements of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

k. ***Compensated Absences*** - Compensated absences are accrued when earned by the employees. Employees may carry forward their vacation and sick leave as permitted by statute and may receive a cash payment from the Authority upon termination of employment.

l. ***Bond Premiums, Discounts, and Loss on* Defeasance** - Bond premiums and discount are amortized as a component of interest expense over the lives of the related issue using the straight line method in a manner that approximates the interest method.

The deferred loss on bond defeasance is presented as deferred outflows in the accompanying statement of net position and the related amortization is presented as a component of interest expense.

m. ***Deferred Outflows of Resources*** - In addition to assets, the Authority reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The deferred loss on bond defeasance qualifies for presentation in this category.

n. ***Net Position*** - The difference between assets and liabilities is presented as "Net Position". Component of net position are the following:

(1) *Net investment in capital assets* - Consists of capital assets, net of accumulated depreciation reduced by the outstanding balance of any bonds, mortgage notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds, is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

(2) *Restricted for debt service* - Net position restricted for debt service consists of restricted net assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

(3) *Restricted for other purposes* - This restriction is imposed by the grantors and contributors.

(4) *Unrestricted* - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

o. ***Operating Revenues and Expenses*** - The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with the rent of the buildings and other miscellaneous revenues are recorded as operating revenues when earned rather than when the cash is received. Expenses related to the administration and maintenance of the buildings are recorded as operating expenses. All other revenues and expenses are considered non-operating.

All current existing leases meet the criteria to be treated as operating leases. Accordingly, rent revenue is recognized as operating revenue over the term of the lease. Rent revenue is pledged as collateral for the repayment of the Authority's revenue bonds.

Non-operating revenues include activities that have the characteristics of non-exchange transactions that are defined as non-operating revenues by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, such as state appropriations and investment income.

p. ***Risk Financing*** - The Authority carries commercial insurance to cover casualty, theft, claims and other loss. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the past three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth.

q. ***Reclassification of prior year presentation*** - Certain reclassifications were made to the 2015 financial statements, in order to conform them to the current's presentation.

3. SIGNIFICANT DEPENDENCY ON COMMONWEALTH OF PUERTO RICO

As part of its normal operating activities, and as disclosed in Notes 6, 11 and 16 to the basic financial statements, the Authority has significant balances and transactions with the Commonwealth of Puerto Rico (the "Commonwealth") and with the Government Development Bank for Puerto Rico ("GDB"). The Commonwealth and GDB face significant uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet their obligations when they come due. Because of these uncertainties, the amounts due from the Commonwealth, may not be collected in the near future, and the Authority's management is unable to determine when such amounts will be appropriated by the Legislature of the Commonwealth. Concurrently, these amounts due from Commonwealth are the sole source for the payment of the corresponding rent contracts charges to Commonwealth related entities and costs of certain construction projects that have been suspended or cancelled by Commonwealth, as disclosed in Note 6 and 11 to the basic financial statements.

GDB traditionally served as a source of emergency liquidity to bridge the Commonwealth and its component units' deficits, but now is also experiencing its own liquidity constraints and is thus unable to continue serving in such role. Loans granted by GDB to the Commonwealth and its component units constitute a significant portion of GDB's assets. A significant portion of these loans are payable from budgetary appropriations, which have been significantly reduced in recent years. The GDB's liquidity and financial condition depends on the repayment of loans by the Commonwealth and its component units. GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due.

The Authority has evaluated the possible effects of the uncertainties and liquidity risks being faced by the Commonwealth and GDB, on its basic financial statements and operations, and has concluded that, as of June 30, 2016, the Authority will continue to operate as a going concern for a period not less than twelve months after such date.

4. RESULTS OF OPERATIONS

As of June 30, 2016 and 2015, the Authority has an accumulated deficit of $548.5 and $292.7 million, respectively. The Authority faces a number of challenges that are closely related to the Commonwealth's economic recession. During the current fiscal year, management continued its policy of strict fiscal and budgetary control and economic measures. In addition, the Authority intends to improve its government office facilities in order to retain existing tenants and attract new agencies and instrumentalities.

Rent receivable includes amounts due by agencies and public corporations of the Commonwealth that are overdue. In addition, the Authority has a receivable, presented as Due from Commonwealth, for costs incurred in the development of projects that were subsequently suspended. During the fiscal year 2016 amount $90.5 million was fully reserved as uncollectible. For the fiscal year 2015 amounted to $89 million. The inability of the Authority to collect the total amount due on time could result in an adverse effect on the Authority's financial position and results of operations.

As a result of the above, the Authority's deficit increased by $255.8 million during the year ended June 30, 2016 as compared with the increase of $12.2 million during the year ended June 30, 2015.

5. UNRESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2016 and 2015 consisted of the following:

	2016	2015
Deposited in commercial banks:		
Cash on hand	$ 10,250,116	$ 863,360
Certificates of deposit	1,448,716	1,443,157
Total cash and cash equivalents	11,698,832	2,306,517
Deposited in Government Development Bank for PR:		
Certificates of deposit	28,162,468	58,082,227
Custodial credit risk loss	(28,162,468)	-
Total cash and cash equivalents	$ 11,698,832	$ 60,388,744

Custodial Credit Risk Loss on Deposit with Governmental Development Bank

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due, as further described in Note 3 to the financial statements. Pursuant to recently enacted legislation, the Governor of the Commonwealth has ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

The Commonwealth and its instrumentalities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations.

As a result, a custodial credit risk loss on unrestricted deposits held with GDB for $28.2 million of cash deposited as of June 30, 2016, was recorded in the Authority's financial statements for the year ended June 30, 2016.

6. RENT RECEIVABLE

This balance represents the amount due from Commonwealth agencies and instrumentalities determined in accordance with the corresponding rent contracts.

Minimum lease rentals are approximately as follows:

Fiscal Year Ending June 30,	Amount
2017	$ 420,509,546
2018	423,694,740
2019	423,488,265
2020	429,372,861
2021	450,614,861
2022-2026	2,172,650,642
2027-2031	3,232,434,591
2032-2036	1,839,483,394
2037-2042	2,017,240,797

Minimum lease rentals are revised every July 1st based on, among other things, debt service requirements for the particular year.

The total amount classified as long-term rent receivable includes approximately $52.1 million over one year old, $15.2 million over 2 years old and $60.1 million over 3 years old which are fully reserved under an estimated allowance for uncollectible accounts of approximately $127.4 million. The most significant amounts included in the above categories are amounts due from the Puerto Rico Department of Education, Courts Administration and the Cardiovascular Center of the Commonwealth of Puerto Rico, amounting to approximately $21.3 million, $48.0 million and $21.1 million, respectively.

The Authority filed a lawsuit against the Courts Administration for the collection of outstanding balance. The Courts Administration claims that it incurred approximately $5 million in maintenance expenses that are the responsibility of the Authority and that the Authority continues to refinance its debt resulting in increases in rental charges without the previous consent of the Courts Administration. Management continues to negotiate with the Courts Administration the settlement of the amount outstanding.

Although the balance of rent receivable at June 30, 2016 and 2015 includes invoices that are overdue, and management has recorded an estimated allowance for uncollectible accounts during 2016 and 2015 as explained above, Law No. 97, Article 15, of May 15, 2006, establishes that any rent to be paid to the Authority during any fiscal year by any department, agency or public corporation of the Commonwealth under the conditions of a rental contract in accordance of the dispositions of Law No. 56 of June 19, 1958, as amended, the Commonwealth will advance to the Authority the amount not paid. This Law requires to the Secretary of the Treasury Department to make an advance of any available funds committed by the full faith and credit of the Commonwealth. In case of the rent to be paid to the Authority by any municipality, this law requires to the Municipal Revenue Collection Center to make payments to the Authority from any property tax collection.

During the fiscal years ended June 30, 2016 and 2015, the Authority received payments from the Department of Treasury in excess of the amounts owned by the Commonwealth agencies and instrumentalities in the amount of $2.2 and $4.9 million respectively. This amount is included as rent collected in advance in the accompanying statements of net position.

During the year ended June 30, 2016 and 2015, the Authority reduced the rent revenue by $222.5 and $2.5 million, respectively for uncollectible amounts.

7. OTHER RECEIVABLES

Other receivables consist of billings for miscellaneous services performed by the Authority and amounted to approximately $22.3 and $21.8 million for the fiscal years ended June 30, 2016 and 2015, respectively. The amount is presented in the accompanying statement of net position net of related allowance for uncollectible accounts amounting to $19.9 and $19.8 million at June 30, 2016 and 2015, respectively.

8. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents at June 30, 2016 and 2015 consisted of the following:

	2016	2015
Interest bearing cash accounts:		
Commercial bank	$ 2,085,647	$ 5,039,851
Government Development Bank of PR	12,427,834	10,248,485
Mutual funds	189,049,872	248,270,321
	203,563,353	263,558,657
Less : custodial credit risk loss	(12,427,834)	-
Total restricted cash and cash equivalents	$ 191,135,519	$ 263,558,657

These amounts are presented in the statements of net position as follows:

	2016	2015
Bond sinking funds	$ 167,231,893	$ 190,569,274
Cash to be deposited in bond sinking fund	834,145	37,083
Construction funds	32,226,552	69,519,372
Funds for construction of facilities for other government entities	3,270,763	3,432,928
	203,563,353	263,558,657
Less: custodial credit risk loss	(12,427,834)	-
Total restricted cash and cash equivalents	$ 191,135,519	$ 263,558,657

a. ***Bond Sinking Funds*** - Bond sinking funds consist of monies deposited under Resolution No. 468 and consist of two (2) separate accounts designated as a "Bond Service Account" and a "Redemption Account". Revenues received from debt service rentals with respect to the facilities financed under Bond Resolution No. 468 are deposited with its respective Fiscal Agent for the credit of such accounts in the following order:

(1) To the Bond Service Account, in such amount as may be required to make the amount equal to the amount of interest then due and payable and the interest, which will become due and payable within the next ensuing six months on all bonds of each series then outstanding and the principal of all serial bonds, if any, which will become payable within the next ensuing twelve months; and

(2) To the Redemption Account, in such amount as may be required to make the amounts so deposited in the current fiscal year equal to the amortization requirement, if any, for such fiscal year for the term bonds of each series then outstanding, plus the premium, if any, which would be payable on a like principal amount of bonds if such principal amount of bonds should be redeemed on the next redemption date from monies in their Bond Sinking Fund.

Bond Resolution No. 468 requires that monies be invested and reinvested in government obligations, bankers' acceptances, certificates or time deposits of any Commonwealth's approval bank or national banking association; repurchase or reverse repurchase agreements or any other investment, which are rated in one of the three highest rating categories.

b. ***Cash to be Deposited in Bond Sinking Funds*** - These funds represent the funds deposited to be transferred to the bond sinking fund accounts with the fiscal agents.

c. ***Construction Funds*** - These funds are used for the payment of all or any part of the remaining cost of the Initial Facilities, as defined, or for payment of all or any part of the cost to the Authority of any Additional Facilities or Improvements, as defined, in accordance with the Bond Resolutions. At June 30, 2016 and 2015, most of the funds deposited in the construction fund are restricted for the financing of the 21st School Program, as explained below, under School Renovation Funds.

d. ***Funds for the Construction of Facilities for Other Governmental Agencies*** - These funds represent the balance of the funds received less the amounts invested in the construction of said facilities. The properties constructed through this arrangement belong to the individual agencies and not to the Authority. Upon completion of each project, the Authority settles with the agency either by returning remaining funds or billing for the excess costs over the funds received.

e. ***School Renovation Funds*** - These funds represent the balance received under federal financial assistance programs, as a subrecipient of the Commonwealth of Puerto Rico Department of Education. These funds are restricted to be used for projects related to school renovation and are subject to compliance requirements applicable to this federal program.

9. DEPOSITS

The Authority is restricted by law to deposit funds only in institutions approved by the Commonwealth of Puerto Rico's Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority.

The Authority is authorized to invest in Puerto Rico and U.S. government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments or its agencies or instrumentalities. The Authority invests in certificates of deposit with financial institutions rated AA or AAA by Moody's Investor Services. Pursuant to the Investment Guidelines for the Commonwealth, adopted by GDB, the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions

***Custodial Credit Risk* - Deposits** - For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial bank's must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. The bank balance of the Authority's deposit at June 30, 2016 and 2015 amounts to $15.7 thousand and $868 million, respectively. In addition, the Authority maintains certificates of deposit with commercial banks, which are also collateralized as explained above in the amount of $1.4 and $20.3 million at June 30, 2016 and 2015, respectively.

As of June 30, 2016, the Authority's total custodial credit risk was approximately $40.6 million, which, is the cash balance of cash deposited at the GDB. These deposits are exempt from the collateral requirement established by the Commonwealth, these are uninsured and uncollateralized.

10. NOTE RECEIVABLE FROM OTHER GOVERNMENTAL AGENCY

The Authority entered into a note receivable agreement with the Institute of Technology in Ponce Puerto Rico for the payment of construction cost aggregating approximately $7.7 million. This amount will be collected in varying principal installments plus interest at 2.81% through fiscal year 2021. Future estimated principal and interest collections during future years are as follows:

Year Ending June 30,	Principal	Interest
2017	$ 514,904	$ 66,242
2018	529,561	51,585
2019	544,635	36,511
2020	560,137	21,009
2021	3,216,849	1,009,801
Total	$ 5,366,086	$ 1,185,148

11. TRANSACTIONS WITH COMMONWEALTH OF PUERTO RICO

a. ***Due from Commonwealth of Puerto Rico*** - This represented the approximate costs of certain construction projects that have been either suspended or cancelled unilaterally by the Commonwealth during planning stages and, therefore, the funds must be returned and deposited in the corresponding bond sinking, construction, or reserve accounts, as deemed appropriate by the bond indentures.

   During the year ended June 30, 2016, the Commonwealth informed the Authority that this liability will no longer be recognized. Therefore, the Authority recorded a loss of approximately $101 million during the year ended June 30, 2016.

The Authority makes advances to the Commonwealth for the financing of certain repairs and improvements of certain schools that are the property of the Commonwealth. During the year ended June 30, 2015 such advances amounted approximately $1.8 million. No advances were made during the year ended June 30, 2016. The monies for this advance were obtained from the proceeds of bonds issued in prior years and deposited in the construction fund. The advances will be collected through monthly billings to the Commonwealth equal to the estimated debt service over the life of the related bonds.

b. ***Rental Revenue and Receivable*** - All rental revenues are from charges to the Commonwealth related entities and related rental receivables that are due by such entities.

c. ***Contributions*** - The Commonwealth, from time to time makes operating and capital contributions to the Authority. Operating grants are for financing operating expenses. Capital grants are restricted to finance investment in capital assets.

d. ***Advances from governmental Agencies for Construction of Agencies' Projects*** - Represents unspent funds received from several agencies and municipalities for the construction of projects. At June 30, 2016 and 2015 balance amounted to approximately $460,000.

12. CAPITAL ASSETS

Capital assets activity for the fiscal years ended June 30, 2016 and 2015 was as follows:

	Year Ended June 30, 2016			
	Balance June 30, 2015	Additions	Deductions or transfers	Balance June 30, 2016
Capital assets not being depreciated:				
Land	$ 129,550,969	$ 45,108	$ (26,616)	$ 129,569,461
Construction in progress	111,941,071	36,574,458	(86,424,083)	62,091,446
Total capital assets no being depreciated	241,492,040	36,619,566	(86,450,699)	191,660,907
Capital assets being depreciated:				
Buildings	4,624,682,349	86,424,083	(20,478,493)	4,690,627,939
Equipment and vehicles	14,830,134	9,342	(987,298)	13,852,178
Total	4,639,512,483	86,433,425	(21,465,791)	4,704,480,117
Less accumulated depreciation:				
Buildings	(1,284,717,087)	(90,810,725)	(968,587)	(1,376,496,399)
Equipment and vehicles	(11,711,399)	(821,161)	2,023,652	(10,508,908)
Total	(1,296,428,486)	(91,631,886)	1,055,065	(1,387,005,307)
Capital assets being depreciated, net	3,343,083,997	(5,198,461)	(20,410,726)	3,317,474,810
Capital assets, net	$ 3,584,576,037	$ 31,421,105	$ (106,861,425)	$ 3,509,135,717

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	Year Ended June 30, 2015			
	Balance June 30, 2014	Additions	Deductions or transfers	Balance June 30, 2015
Capital assets not being depreciated:				
Land	$ 129,524,461	$ 56,316	$ (29,808)	$ 129,550,969
Construction in progress	136,376,177	86,438,469	(110,873,575)	111,941,071
Total capital assets no being depreciated	265,900,638	86,494,785	(110,903,383)	241,492,040
Capital assets being depreciated:				
Buildings	4,520,268,751	-	104,413,598	4,624,682,349
Equipment and vehicles	15,397,878	663,005	(1,230,749)	14,830,134
Total	4,535,666,629	663,005	103,182,849	4,639,512,483
Less accumulated depreciation:				
Buildings	(1,193,904,529)	(90,149,961)	(662,597)	(1,284,717,087)
Equipment and vehicles	(12,308,580)	(769,123)	1,366,304	(11,711,399)
Total	(1,206,213,109)	(90,919,084)	703,707	(1,296,428,486)
Capital assets being depreciated, net	3,329,453,520	(90,256,079)	103,886,556	3,343,083,997
Capital assets, net	$ 3,595,354,158	$ (3,761,294)	$ (7,016,827)	$ 3,584,576,037

a. ***Capitalized Interest and General Construction Expenses*** - The Authority capitalized to construction in progress during the fiscal years ended June 30, 2016 and 2015 interest for approximately $3 and $5 million, respectively. In addition, the Authority capitalized construction general expenses for approximately $14,500 thousand and $2.2 million during the years ended June 30, 2016 and 2015, respectively.

b. ***21st Century Schools Program*** - Construction in progress at June 30, 2016 and 2015 includes $39.2 and $65.4 million, respectively, related to 21st Century Schools Program (the School Program). The program consists of remodeling of over 100 schools throughout Puerto Rico. To finance the program, the Authority issued government facilities revenue bonds in the amount of $878 million during the fiscal year ended June 30, 2012 of which $15.7 million are deposited in construction funds at June 30, 2016.

   The Authority contracted the services of Puerto Rico Infrastructure Financing Authority (AFI, for its acronym in Spanish), a component unit of the Commonwealth, to serve as construction manager. Under the contract, AFI is responsible for the management of the program including among others, contracting general contractors and or subcontractors, inspection, supervision and acceptance of the remodeled schools and in certain cases provides maintenance to the schools. AFI bills the Authority the cost of the program plus an agreed administrative fee. Certain of the schools under the program are property of the Department of Transportation and Public Works (DTOP), an agency of the Commonwealth. The Authority leases such schools from DTOP for a minimum rent of $10 per year. When the improvements of such schools are completed, the Authority will bill rent to the Department of Education of the Commonwealth for the payment of the debt service of the bonds issued under forbearance.

13. PROPERTY HELD FOR SALE

The Authority identified certain properties for sale, as part of its efforts to increase liquidity. The cost of the properties identified was reclassified from capital assets as property held for sale and is recorded at cost or net book value, which approximates its fair value. No costs of disposal have been estimated as these properties consist of real estate and the Authority believes that the net realizable amount will exceed the current book value of the property held for sale. Property held for sale amounted to $198,364 as of June 30, 2015. There no property held for sale as of June 30, 2016.

14. LAND AND BUILDING UNDER CONSTRUCTION FOR OTHER GOVERNMENTAL AGENCIES

The Authority did not have any activity related to land and building under construction for other governmental agencies for the fiscal year ended June 30, 2015. Activity in land and building under construction for other governmental agencies for the year ended June 30, 2016 is as follows:

	Year Ended June 30, 2016			
	Balance at Beginning	Increases	Decreases	Balance at End of Year
Construction in progress	$ -	$ 460,329	$ -	$ 460,329

15. INTERGOVERNMENTAL PAYABLES

Intergovernmental payables at June 30, 2016 and 2015 consist of the following:

	2016	2015
Amount payable from unrestricted assets:		
Puerto Rico Electric Power Authority	$ 3,045,360	$ 5,273,485
Puerto Rico Aqueduct and Sewer Authority	392,336	1,391,841
Employees' Retirement System	3,458,352	3,429,419
General Services Administration	138,089	203,739
Commonwealth of Puerto Rico	2,388,511	2,338,845
Other	123,849	255,946
Total payable from unrestricted assets	$ 9,546,497	$ 12,893,275
Amount payable from restricted assets:		
Puerto Rico Infrastructure Financing Authority	$ 3,213,227	$ 12,951,664

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16. BORROWINGS UNDER LINES OF CREDIT

The activity under the line of credit agreements during the fiscal years ended June 30, 2016 and 2015 is as follows:

	Year Ended June 30, 2016				
	Balance June 30, 2015	Proceeds from Borrowings	Payments/ Decreases	Balance June 30, 2016	Current Portion
Lines of credit used for:					
Operational activities	$ 64,718,816	$ -	$ -	$ 64,718,816	$ -
Construction activities	113,465,039	3,976,252	-	117,441,291	-
Total	$ 178,183,855	$ 3,976,252	$ -	$ 182,160,107	$ -

	Year Ended June 30, 2015				
	Balance June 30, 2014	Proceeds from Borrowings	Payments/ Decreases	Balance June 30, 2015	Current Portion
Lines of credit used for:					
Operational activities	$ 64,718,816	$ -	$ -	$ 64,718,816	$ -
Construction activities	110,734,275	2,766,319	(35,555)	113,465,039	-
Total	$ 175,453,091	$ 2,766,319	$ (35,555)	$ 178,183,855	$ -

During fiscal year 2008, the Authority executed two lines of credit agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest at a variable rate of 1.50% over prime rate or at such other variable lines as determined by GDB but not less than 6% at any time (6% at June 30, 2016 and 2015).The lines are due on June 30, 2044 and will be payable from the proceeds of the future Revenue Refunding Bonds issuance of the Authority. Balance outstanding under these lines of credit amounted to approximately 66.4 and $64.0 million at June 30, 2016 and 2015, respectively.

The Authority maintains a line of credit with GDB in which the Authority may borrow up to $75 million, bearing interest at 150 basis points over three month LIBOR but not less than 5% at any time (7% at June 30, 2016 and 2015). The proceeds from this line were used to finance the Authority's operational expenses during the fiscal year 20052006. Payments of principal and interest will be from annual appropriations from the Commonwealth of Puerto Rico's general budget pursuant to the provisions of the Resolution No. 387 of December 21, 2005. The line is due on June 30, 2018. During the fiscal year ended June 30, 2015 $4.2 million were received from GDB for payments the interest of this line of credit. No payments were made for principal and interest amount during the fiscal year 2016. Balance outstanding under this line of credit amounted to approximately $64.7 million at June 30, 2016 and 2015.

During fiscal year 2010, the Authority executed lines of credit agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $93.6 million, bearing interest at a variable rate of 1.50% over prime rate or at such other variable rate as determined by GDB but not less than 6% at any time (6% at June 30, 2016 and 2015). The lines are due on June 30, 2044 and will be payable from the proceeds of the future Revenue Refunding Bonds issuance of the Authority. Balance outstanding under these lines of credit amounted to approximately $51.0 and $49.5 million at June 30, 2016 and 2015, respectively.

During July 2012, the Authority executed two lines of credit agreements with GDB in which the Authority may borrow up to $174.7 million. Borrowings under these agreements are to be used to provide financing for all or a portion of the interest and principal component of certain of its outstanding revenue and revenue refunding bonds coming after 12 months after the date of the line first draw. The agreements were due in December 2013. Interest on outstanding borrowings is charged at the cost of GDB Lender cost plus 150 basis points, but in any event the rate will not be less than 6% at any time (6% at June 30, 2016 and 2015). These lines were approved in accordance with Resolution 1684 adopted July 2012. Principal outstanding will be paid from the proceeds of revenue bonds to be issued by the Authority under Section 209 of Resolution 468, Resolution 158 and Resolution 77. As of June 30, 2016 and 2015, there are no balance outstanding under these credit lines.

Total interest expense charged by GDB under the above lines of credit agreements amounts to approximately $11.5 and $11.3 million during the fiscal years ended June 30, 2016 and 2015, respectively.

17. BONDS PAYABLE

Bonds payable at June 30, 2016 and 2015 consist of:

	2016	2015
Office Buildings Bond:		
Term bonds maturing through 2021 with interest rates ranging from 5.5% to 6.0%	$ 37,315,000	$ 37,315,000
Government Facilities Revenue Bonds:		
Serial bonds maturing through 2027, with interest rates ranging from 3.0% to 6.75%	1,651,092,000	1,733,092,000
Term bonds maturing through 2042, with interest rates ranging from 3.0% to 7.0%	2,354,945,000	2,354,945,000
Capital Appreciation Bonds, maturing through 2031, with interest rate a 5.45%	22,610,000	22,610,000
Total government facilities revenue bonds	4,028,647,000	4,110,647,000
Total bonds outstanding	4,065,962,000	4,147,962,000
Add (Deduct):		
Bond discount	(25,246,415)	(26,597,576)
Bond premiums	32,598,038	37,667,809
Bonds payable, net	4,073,313,623	4,159,032,233
Less current portion	86,125,000	82,000,000
Bonds payable	$ 3,987,188,623	$ 4,077,032,233

Aggregate maturities of sinking funds' amortization requirements on bonds, (excluding discounts and premiums), accreted value on bonds and related interest payments in future years are as follows:

Year Ending June 30,	Principal	Interest
2017	$ 86,125,000	$ 186,006,867
2018	90,905,000	179,340,197
2019	66,235,000	205,436,427
2020	69,645,000	201,715,487
2021	74,140,000	118,187,657
2022 to 2026	506,805,000	944,565,395
2027 to 2031	1,392,377,000	1,168,964,720
2032 to 2036	708,365,000	380,760,346
2037 to 2041	770,665,000	188,894,800
2042 to 2043	300,700,000	14,865,656
Total	$ 4,065,962,000	$ 3,588,737,552

The full faith and credit of the Commonwealth is pledged for the payment or advance of such rentals. The payment of principal and interest on the bonds is further supported by the guaranty of the Commonwealth under which the Commonwealth pledges to draw from any funds available in the Department of Treasury of Puerto Rico such sums as may be necessary to cover any deficiency in the amount required for the payment of principal and interest on the bonds, in an aggregate principal amount not exceeding $4,721 million.

The Authority's bonds payable are subject to the arbitrage rebate regulations issued by the Internal Revenue Service of the United States of America that require rebate to the federal government of excess investment earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2016.

The Authority's bonds payable include certain restrictive covenants. At June 30, 2016 and 2015, the Authority was in compliance with such covenants.

The activity of bonds payable during the fiscal years ended June 30, 2016 and 2015 are as follows:

	Fiscal Year Ended June 30, 2016				
	Balance June 30, 2015	Increases	Payments/ Decreases	Balance June 30, 2016	Current Portion
Office Building Bonds -					
Term bonds	$ 37,315,000	$ -	$ -	$ 37,315,000	$ -
Government Facilities:					
Revenue bonds	-	-	-	-	-
Serial bonds	1,733,092,000	-	(82,000,000)	1,651,092,000	86,125,000
Term bonds	2,354,945,000	-	-	2,354,945,000	-
Capital appreciation bonds	22,610,000	-	-	22,610,000	-
Total	4,110,647,000	-	(82,000,000)	4,028,647,000	86,125,000
Total bonds outstanding	4,147,962,000	-	(82,000,000)	4,065,962,000	86,125,000
Add (deduct):					
Bonds discounts	(26,597,576)	-	1,351,160	(25,246,416)	-
Bond premiums	37,667,809	-	(5,069,770)	32,598,039	-
Bonds payable, net	$ 4,159,032,233	$ -	$ (85,718,610)	$ 4,073,313,623	$ 86,125,000

	Fiscal Year Ended June 30, 2015				
	Balance June 30, 2014	Increases	Payments/ Decreases	Balance June 30, 2015	Current Portion
Office Building Bonds -					
Term bonds	$ 37,315,000	$ -	$ -	$ 37,315,000	$ -
Government Facilities:					
Revenue bonds	-	-	-	-	-
Serial bonds	1,808,687,000	-	(75,595,000)	1,733,092,000	74,610,000
Term bonds	2,361,985,000	-	(7,040,000)	2,354,945,000	7,390,000
Capital appreciation bonds	22,610,000	-	-	22,610,000	-
Total	4,193,282,000	-	(82,635,000)	4,110,647,000	82,000,000
Total bonds outstanding	4,230,597,000	-	(82,635,000)	4,147,962,000	82,000,000
Add (deduct):					
Bonds discounts	(27,949,784)	-	1,352,208	(26,597,576)	-
Bond premiums	43,496,799	-	(5,828,990)	37,667,809	-
Bonds payable, net	$ 4,246,144,015	$ -	$ (87,111,782)	$ 4,159,032,233	$ 82,000,000

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statements of net position. As of June 30, 2016 and 2015, the outstanding balance of defeased bonds was approximately $660 and $669 million, respectively.

18. OTHER LONG-TERM LIABILITIES

Other long-term liabilities at June 30, 2016 and 2015 consist of:

	Fiscal Year Ended June 30, 2016				
	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Current Portion
Advances from other governmental agencies	$ 460,329	$ -	$ -	$ 460,329	$ -
Compensated absences	11,368,578	7,833,309	(6,127,745)	13,074,142	7,833,309
Accrued legal contingencies	17,048,154	1,761,143	(951,783)	17,857,514	480,724
Other post-employment benefits	14,143,473	2,269,042	(524,069)	15,888,446	390,278
Voluntary termination benefits	6,510,778	130,560	(1,892,206)	4,749,132	1,595,085
Total	$ 49,531,312	$ 11,994,054	$ (9,495,803)	$ 52,029,563	$ 10,299,396

	Fiscal Year Ended June 30, 2015				
	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015	Current Portion
Advances from other governmental agencies	$ 183,234	$ -	$ -	$ 183,234	$ -
Compensated absences	11,021,578	7,469,401	(7,122,401)	11,368,578	7,469,401
Accrued legal contingencies	20,192,875	-	(3,144,721)	17,048,154	951,783
Other post-employment benefits	12,382,963	2,658,834	(898,324)	14,143,473	524,069
Voluntary termination benefits	8,824,258	-	(2,313,480)	6,510,778	1,892,707
Total	$ 52,604,908	$ 10,128,235	$ (13,478,926)	$ 49,254,217	$ 10,837,960

a. ***Advances from Other Governmental Entities*** - This amount represents the balance of the amounts advanced by other governmental entities, mainly for the construction of facilities that will be owned by these entities. These projects include appropriations from the Commonwealth to finance the construction of facilities by these agencies, which in turn request the Authority to carry out the construction and the administration of the construction progress. Upon acceptable completion, the project is completed and is taken over by the corresponding agency. The assets are not owned by the Authority.

b. ***Compensated Absences*** - Employees earn annual vacation leave at the rate of 30 days per year up to a maximum permissible accumulation of 30 days for union employees and 60 days for management personnel. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment, or retires and takes a pension. Maximum permissible accumulation for sick leave is 90 days for all employees, and the excess is paid within the next year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees. The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current and accrued liabilities while amounts expected to be paid after twelve months are classified as non-current liabilities.

c. ***Accrued Legal Contingencies*** - This amount represents the Authority's estimates of possible legal and contractual settlements arising from normal litigation procedures. The estimated amount was based on the corresponding number of legal cases currently underway and based upon the advice and consent of the Authority's legal division and its external legal advisors. Actual amount to be settled may be materially different from the amount accrued.

d. ***Other Post-Employment Benefits*** - This amount represents the Authority's liability for its retirement healthcare benefits under the Healthcare Benefit Plan to Retirees as further described in Note 20.

e. ***Voluntary Termination Benefits*** - This amount represents the Authority's liability related to a program that provides benefits for early retirement or economic incentives for voluntary employment termination to certain eligible employees as further explained in Note 21.

19. DUE TO CONTRACTORS

This amount represents the remaining balance due to contractors for projects under construction. Normally, the contractors submit progress billings for projects in progress and the Authority pays these invoices, except for the retainage portion. This withholding is used as a guarantee that the contractor will complete the project in accordance with contract requirements. Normally the retainage will be paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

20. RETIREMENT PLAN

Employees of the Authority participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System"). The System is a defined benefit, cost-sharing, multiemployer plan sponsored by the Commonwealth under the terms of Act No. 447 of 1951, as amended. Participation is mandatory for regular employees. The System issues a publicly available financial report that includes its financial statements and required supplementary information.

Disability retirement benefits are available to members for occupational and nonoccupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited services. Benefits vest after ten years of plan participation. Members who have attained at least 55 years of age and have completed at least 30 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be 1.5% of the average compensation multiplied by the number-of-years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month. For those participant employees after March 31, 1990, the amount of the annuity is 1.5% of the compensation multiplied by the number of years for credited services. The annuity should not be less than $2,400 in any case.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average compensation or if they have attained 55 years of age will receive up to a maximum of 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability up to a maximum benefit of 50% of the average compensation. However, for non-occupational disability, a member must have at least 10 years of creditable service.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the System effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average compensation for all years of creditable service, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average compensation, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable service.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% or 8.275% of their monthly gross salary. Commencing on July 1, 2012, the Authority is required to contribute 11.275%, with annual increases of 1% to contributions from July 1, 2012 to June 30, 2016. Effective July 1, 2016, the Authority's contribution will increase by 1.25% annually until reaching 20.525%.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of System 2000.

System 2000 is a hybrid-defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two year Constant Maturity Treasury Note, or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives.

Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employees' contributions (9.275% of the employees' salary) will be used to fund the current plan.

System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the System. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the System, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

2. Increased the minimum pension for current retirees from $400 to $500 per month.

3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.

4. The retirement age for active System 2000 participants will be gradually increased from age 60 to age 65.

5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.

6. Eliminated the "merit annuity" available to participants who joined the System prior to April 1, 1990.

7. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

8. The employee contribution rate was increased from 8.275% to 10%.

9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated.

11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

12. Survivor benefits were modified.

On December 8, 2015, the Commonwealth enacted Act No. 211, establishing a voluntary program that provides benefits for preretirement to eligible employees, as defined. Act No. 211 applies to eligible employees of agencies and component units whose budgets are funded in whole or in part by the Commonwealth's General Fund, municipalities, component units that operate with their own resources (except those that have their own retirement system), Judiciary Branch, except judges, and the Commonwealth Employees Association. Act No. 211, among other provisions, established that preretirement benefits (preretirement program) will be provided to eligible employees who started contributing to the System before April 1, 1990 with at least 20 years of service and will consist of biweekly benefits of 60% of the of each employee's salary as of December 31, 2015, as defined. Pursuant to Act No. 211, the employers will continue making the applicable employee and employer contributions to the Retirement System and the employer contributions to the Federal Social Security and Medicare based on the average salary, as defined, as of December 31, 2015. Individual contributions to the Federal Social Security and Medicare will be deducted from the biweekly benefits to be paid to the participant. These payments will be made until the employee reaches the age of 61 years. Other benefits would include the payment of the participant's healthcare plan during the first two years of the program. Once the participant reaches age of 61 years, the participant is eligible to receive payments from the System and is entitled to a guaranteed minimum pension of 50% of their average salary (except police officers, which would be paid 60%) which related cost will be paid by the employer.

On June 30, 2016, the Governor signed an executive order, EO2016031 (EO 31), which among other things, declared an emergency period with respect to System and suspended the monthly payments to the trustee of the System's bonds in July 2016.

The above executive orders and other executive orders signed by the Governor, also declared an emerging period over various employers of the System.

On October 30, 2016, the Oversight Board designated Puerto Rico, the System, JRS, TRS, the University of Puerto Rico and twenty-one public corporations of Puerto Rico as "covered entities" subject to oversight under the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA).

Faced with the eventual insolvency of the System and the inability to reach a consensual restructuring agreement with the System's creditors, on May 21, 2017, the Governor asked the Oversight Board to include the System for protection under PROMESA's Title III. On May 22, 2017, the Oversight Board filed with the federal district court of Puerto Rico a petition under Tittle III of PROMESA to cover the System.

On June 23, 2017, the Legislature approved the Other Assignments for the Fiscal Year 2017-2018 Joint Resolution, which among other things, ordered the System, JRS and TRS to liquidate their assets and pass the net proceeds to the Treasury Department of the Commonwealth.

On August 23, 2017, the Governor of Puerto Rico signed into law the Act for Guaranteeing the Payment to Retirees and Establishing a New Defined Contributions Plan for the Public Servicers (Act No. 106-2017). Act No. 106-2017 reforms the System.

Act No.106-2017, among other things, amends Act No. 3 with respect to the System's governance, funding and benefits for active members of the actual program and new hired members. By this act, the System's Board of Trustees was substituted with the Retirement Board of the Government of Puerto Rico (Retirement Board). Pursuant this act the Retirement Board will also be in charge of the governance of the Government Employees Retirement System.

The pay as you go method for the payment of pension benefit from the Commonwealth's General Fund was established as a source of funding for the future pension payments when the systems assets are depleted. The act also terminates the actual program for the System participants as of June 30, 2017. The members of the actual program and new system members hired since July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the actual program will be transferred to the members account at the new defined contributions program. The System' active members of the defined benefits program will retain their benefits as stated under the Act 91 of March 29, 2003.

The Act 106-2017 also ordered a suspension of the System' loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board discretion, the administration of the system benefits might be externalized. The employees of the System that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act 8 of February 8, 2017.

Funding Policy

Contribution requirements were established by law under the prior requirement and are as follows:

The Authority:	12.275% of gross salary with annual increases of 1% to contributions from July 1, 2012 to June 30, 2016.
	Commencing on July 1, 2016, contribution increase by 1.25% annually until reaching 20.525%.
Employees	7.0% of gross salary up to $6,600 plus 10% of gross salary over $6,600.

The Authority's contractually required contributions for the year ended June 30, 2016, amounted to approximately $3.5 million.

The amount of the total pension benefits obligation is based on a standardized measurement established by accounting principles generally accepted in the United States of America that, with some exceptions, must be used by a public employee retirement system. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases.

The most recent actuarial valuation is as of June 30, 2015. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation are summarized below:

• Investments rate of return	6.55% a year
• Payroll growth	3.0% per year
• Defined Contributions Hybrid Account	Member contributions to the Defined Contribution Account are assumed to be 10% of the compensation. Defined Contribution Hybrid are assumed to grow using the 5.24% annual investment Return (80% of the net investment return assumption).
• Pre-retirement mortality	RP-2014 Employee Mortality Rates, adjusted to reflect Mortality Improvement Scale MP-2015
• Post-retirement disabled mortality	Gender specific mortality rates developed based on a study of plan's experience from 2007 to 2012.
• Post-retirement health mortality	Gender-specific mortality rates developed based on a study of plan's experience from 2007 to 2012.
• Termination	Withdrawals rates vary by employment category, age and service
• Disability	Six month elimination period rates in the 1987 Adjusted Commissioners Group Disability Table.
• Retirement Age	Rates varies by employment category, Act, age and years of creditable service
• Proportion of participants with spouses	100% of current active members, covered under Act 127 are assumed to be married at retirement with males 4 years older than females.

Additional information on the System is provided in its financial statements for the year ended June 30, 2014, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, P.O. Box 42003, San Juan, PR 00940-2003.

Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB 68) became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

As of the date of the release of this report, the System has not provided the Authority with the required information to implement the requirements of GASB 68. Therefore, the accompanying financial statements do not have any adjustments that will be necessary for the Authority to account for its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of July 1, 2015 and June 30, 2016, as well as the effect in the recorded pension expense in the statement of revenue, expenses and changes in net position for the year ended June 30, 2016. Also, additional disclosures required by GASB 68 as well as required supplementary information have been omitted from these basic financial statements.

21. OTHER POST-EMPLOYMENT BENEFITS

The Authority has implemented GASB Statement No. 45, *"Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions"* (GASB 45). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state, and local governmental employers.

Post-employment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

a. ***Plan Description*** - The Authority provides retirement healthcare benefits under the Healthcare Benefit Plan to Retirees (the Plan) pursuant to collective bargain agreements. The Plan is administered by the Authority. Benefits consist of a maximum monthly payment (annuity) to cover medical expenses. Based on the Plan's features and functionality, and for the purpose of the actuarial valuation, it has been identified as a single -employer defined benefit healthcare plan. Participants groups covered are employees under Collective Labor Agreement with "Unión Independiente de Empleados de la Autoridad de Edificios Públicos" ("UIEAEP"), employees under Collective Labor Agreement with "Unión de Empleados de Oficina y Profesionales de

la Autoridad de Edificios Públicos" ("UEOP") and the Authority's management employees. All employees with at least 10 years of rendered service within the Authority are eligible for the healthcare benefit upon retirement age. Normal retirement is as follows:

- For employees that were employed by the Authority at March 30, 1990 the retirement is at 30 years of service.

- For employees that were employed by the Authority after March 30, 1990 the retirement is at 10 years of service and 65 years old.

The benefit is paid in case of permanent disability of the retiree until death. Also, the benefit is paid in case an active employee gets disable until death. The obligation ends in case of death after retirement.

b. ***Description of The Other Post-Employment Benefits Provided*** - In addition to providing the pension benefits, the Authority provides a defined dollar contribution to partially cover medical insurance cost to eligible retired employees. The Authority's contribution is limited to $200 monthly per eligible retired employees up to a period of thirty-six months (twelve months for managerial employees). This benefit is included in the Collective Bargain Agreements and will be re-evaluated when the Collective Bargain Agreements are up for renewal. Under this level of benefits provided, the risk of medical cost increases resides with the retiree and, therefore, results in a lower OPEB liability for the Authority.

c. ***Membership*** - As of June 30, 2016 and 2015, the number of active employees and retirees amounted to $1,378 and $1,449, respectively.

d. ***Funding Policy*** - The obligations of the plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The Authority currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the Authority.

e. ***Annual OPEB cost and net OPEB obligation*** - The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement 45 for employers in the Plan with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2016 and 2015, the amount actually contributed to the plan and the Authority's net OPEB obligation at June 30, 2016 and 2015:

OPEB Obligation

	2016	2015
Normal cost	$ 814,465	$ 1,122,893
Amortization of unfunded actuarial accrued liability	2,097,523	2,374,398
Annual required contribution	$ 2,911,988	$ 3,497,291
OPEB contributions made during the year	$ 390,278	$ 524,069
Percentage of expense contributed	12.2%	15.0%

The net OPEB obligation change for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Normal OPEB obligation at beginning of year	$ 14,143,473	$ 12,382,963
Total annual OPEB costs	2,269,042	2,658,834
Actuarial benefits payments	(524,069)	(898,324)
Annual required contribution	$ 15,888,446	$ 14,143,473

Components of OPEB costs during the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Annual required contribution (ARC) for the fiscal year	$ 3,193,225	$ 3,439,151
Interest or net OPEB obligation	413,100	433,404
ARC amortization adjustment	(1,860,675)	(1,213,721)
Total annual OPEB costs	$ 1,745,650	$ 2,658,834

As of June 30, 2016 and 2015, the actuarial accrued liability for benefits amounted to $20.3 and $20.4 million, respectively, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was approximately $49.9 and $53 million during the years ended June 30, 2016 and 2015, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 40.6% and 52.8%, respectively.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continuous revisions as actual results are compared with past expectations and new estimates are made about the future.

f. ***Methods and Assumptions*** - Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of valuation and the historical pattern of benefit costs paid by the employer to date. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The amortization method of the initial unfunded actuarial accrued liability is the level dollar for a period of 15 years. The amortization method for the gain or loss is the level dollar for a period of 15 years-closed. The valuation date was July 1, 2016 and the Projected Unit Credit Cost Method was used. The actuarial assumptions were based on a set of assumptions supplied by the Authority. Turnover rates were based on service and age-related turnover. A discount rate of 2.6% was used. This rate is the best actuarial estimate of expected long-term experience.

The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

22. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 was a voluntary selection for the public corporations, such as the Authority, and established that early retirement benefits will be provided to eligible employees that have completed between 20 to 29 years of credited service in the Retirement System, between 48 and 55 years of age, and will consist of biweekly benefits of a 50% of each employee' salary, as defined. In this early retirement benefit program, the Authority will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have at least 30 years of credited service in the Retirement System who have attained the age for retirement. Economic incentives will consist of a lump-sum payment of six months of salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement, the Authority will make the employee and the employer contributions to the

Retirement System for a five year period. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have at least 20 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of $15.8 and $14.1 million in the balance sheets as of June 30, 2016 and 2015, respectively, and a charge of approximately $1.7 and $1.8 thousands in the statements of revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015, respectively. At June 30, 2016, unpaid long-term benefits granted on this program were discounted at 2.6% and 3.0% depending on the employee voluntary termination benefits selected.

23. COMMITMENTS AND CONTINGENT LIABILITIES

a. ***Construction*** - The Authority has entered into various contracts with outside contractors for the construction of buildings and other facilities. The Authority records the liability for these contracts as progress billings are received, based on completed work. The uncompleted portion of these contracts is approximately $4.8 million as of June 30, 2016.

The Authority has an agreement with AFI related to the construction and improvements to public schools under the 21st Century Program. Under this agreement, the Authority is committed to honor cost of uncompleted work at June 30, 2016 in the amount of approximately $66,913 thousand.

b. ***Litigation*** - The Authority is defendant or co-defendant in various lawsuits for alleged damages and breach of contracts in cases related to construction projects. In addition, the Authority is defendant or co-defendant in other cases related to public liability and labor related matters. Some of the legal cases related to public liability are covered by insurance.

The Authority, based on legal advice, has recorded an adequate provision to cover probable losses on the claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the insurance coverage and/or the recorded provision that may arise from such claims would not be significant to affect to the Authority's financial position or results of operations.

c. ***Environmental*** During 2012, the Authority identified asbestos in the Central Offices building in Minillas, Santurce, Puerto Rico. Asbestos removal cost was estimated base on environmental engineers' consultant survey. As a result, during the year ended June 30, 2012, the Authority recorded a liability of $2 million for the estimated cost of the removal. During the year ended June 30, 2015, most of the asbestos

removal process was completed at a total cost very similar to the total provision recorded in 2012. The Authority has contracted environmental engineers to determine if asbestos exists in other of the Authority's properties. At June 30, 2016, no other property has been identified, therefore, no additional reserve for any future potential liability has been recorded.

24. SUBSEQUENT EVENT

Subsequent events were evaluated through April 25, 2018 to determine if any such events should either be recognized or disclosed in the 2016 basic financial statements. The subsequent events disclosed below are principally those related to government determinations and administrative decisions related to debt activities, other revenue and/or budget related matters and fiscal events and related legislation, both local or federal, that management believes are of public interest for disclosure.

Significant Legislation and Other Events after Year-End

A. Puerto Rico Oversight, Management And Economic Stability Act

(a) Puerto Rico Oversight, Management And Economic Stability Act ("PROMESA")

On June 30, 2016, President Obama signed the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). Among other things, PROMESA (i) established an oversight board with broad authority over the finances of Puerto Rico and its instrumentalities (the "Oversight Board"), (ii) granted a temporary stay on creditor lawsuits (which expired on May 1, 2017), and (iii) provided Puerto Rico and its instrumentalities access to two orderly mechanisms to restructure their debts. .

The two debt ajustments mechanisms established by PROMESA consist of (i) Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (ii) Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (including automatic stay and cram-down provisions).

From May through July 2017, the Oversight Board commenced Title III proceedings for the Government of Puerto Rico, the Puerto Rico Sales Tax Financing Corporation, the Puerto Rico Highways and Transportation Authority ("HTA"), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico and the Puerto Rico Electric Power Authority by filing petitions for relief under Title III of PROMESA. On May 11, 2017, the United States Supreme Court designated Judge Laura Taylor Swain, a United States District Judge, to preside over all Title III cases. All Title III cases are still ongoing and have been consolidated for procedural purposes.

(b) Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Financial Emergency and Fiscal Responsibility of Puerto Rico Act and Related Executive Orders

On April 6, 2016, the Government enacted Act No. 21-2016, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (as amended, the "Moratorium Act"). Pursuant to the Moratorium Act, the Governor adopted a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Government of Puerto Rico and several of its instrumentalities, inlcuding the Authority. Pursuant to such executive orders, said entities have not made debt service payments, have done so with moneys on deposit with the trustees of their bonds, and/or have not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at GDB and suspended the disbursement of loans by GDB.

Specifically, on June 30, 2016 the Governor signed Executive Order 2016-30, which, among other things suspended the obligation of the Commonwealth and its departments and agencies to make lease payments to the Authority, suspended the Authority's obligation to transfer pledged funds to the fiscal agent under its bond resolutions, and suspended payment of interest and principal on all bonds and notes guaranteed by the Commonwealth.

On January 29, 2017, the Governor signed into law Act No. 5-2018, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (as amended, "Act 5"), which repealed certain provisions of the Moratorium Act and authorized additonal emergency measures. Pursuant to Act 5, however, the executive orders issued under the Moratorium Act would continue in effect until amended, rescinded or superseded. The emergency period under Act 5 will expire June 30, 2018, unless extended by the Governor. Some additional powers provided to the Governor through Act 5 include: authority to exercise receivership powers to rectify the financial emergency, exercise general supervisory control over the functions and activities of all government entities within the Executive Branch, and issue executive orders to implement and enforce compliance with Act 5.

The Government has not included appropriations for the payment of debt service in its general fund budget since fiscal year 2017, as the payment of such obligations has been suspended pursuant to the Moratorium Act and Act 5.

B. Installment Agreement with Employees' Retirement System of the Commonwealth of Puerto Rico

The Authority had a debt with the Employees' Retirement System due to special laws approved during 2016-2017, uniform additional contribution, and interests, amounting to $12.1 million as of December 23, 2016. On January 4, 2017 the Executive Director signed an installment agreement in order to pay the whole debt. This installment agreement gave the opportunity to the Authority to pay the overdue debt and still paying the current remittances. The Authority paid a down payment, six fix installments, and a final lump sum in July 18, 2017, taking advantage of the clause that allow to make additional payments and pay off the debt in advance, in order to get zero balance due before the change in the method.

On August 10, 2017 the Governor Ricardo Rosello Nevares signed a legislation that call for the new defined contribution plan for active workers and new hires to be administered by a third-party provider. Fund existing pension obligations on a "pay-as-you-go" basis, which means the government will pay benefits to retirees directly as they come due, rather than attempting to pre-fund future benefits via a retirement system's investment fund. Enrolling both active employees and newly hired workers in a true defined contribution retirement system. PBA adopted the "pay-as-you-go" system and has accrued the total amount of the debt in a payable account until the Puerto Rico Department of Treasury deliver the following directions to the Agency.

C. Hurricanes Irma and Maria

Hurricane Maria made landfall in Puerto Rico on September 20, 2017, bringing sustained winds of 155 miles per hour and significant rainfall over a 30hour period. Hurricane Maria crossed Puerto Rico diagonally, entering through the Southeast and exiting through the Northwestern region. The hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system, and left the island completely without power. Only two weeks prior to Hurricane María, Hurricane Irma—one of the strongest hurricanes ever recorded in the Atlantic—passed by Puerto Rico's north coast, substantially impairing an already weak infrastructure.

The Authority does not have an emergency fund account. In order to give out purchase orders to contractors and be able to start to fix the damages caused of its properties, obtained an advance of $5,000,000 from the Insurance Company. The Insurance Company will pay to PBA their insurance coverage for the damages, then, the Federal Emergency Management Agency ("FEMA") will refund to the Authority a deductible amount or copayment amount for actual paid costs. PBA expects to recapture from the Insurance Company and FEMA the amount completely to set the properties as before the Hurricanes.

D. Other Significant Subsequent Events Regarding PBA

As of July 31, 2016, the Authority had approximately $4.005 billion in bonds outstanding, issued primarily to finance the construction of governmental facilities that are thereafter leased to the Commonwealth and its instrumentalities. Lease payments made to the Authority by the Commonwealth, its public corporations or municipalities in consideration for the use of such facilities constitute the main source of repayment for the Authority's bonds.

The fiscal year 2017 approved budget did not include appropriations for the payment of debt service by the Commonwealth. Certain of the measures implemented in fiscal year 2016 to reduce government expenses and manage liquidity constraints, including the payment moratorium, continued throughout fiscal year 2017. The fiscal year 2018 budget includes significant reductions in agencies' expenditures, encompassing almost all line items of expenditures, such as payroll and related costs, purchased services, subsidies, public service facilities, transportation costs, equipment purchases, materials and supplies, media advertising and federal funds local matching, among others.

The Authority requested a budget of $135 million for fiscal years 20162017 and 20172018 and only $90 million funds were approved in both years for the Puerto Rico Office of Management and Budget. The assigned resources for operational expenses, including payroll, are insufficient, and this situation affect seriously the Agency's liquidity, and additionally could affect the going concern of its operations in the near future.

Most of such lease payments are subject to legislative appropriation from the Commonwealth's General Fund budget. the Authority's lease payments and its bonds are, however, guaranteed by the good faith, credit and taxing power of the Commonwealth. The Authority bonds therefore, constitute Commonwealth Guaranteed Obligations. The Authority is currently authorized by law to have outstanding at any one time up to $4.7 billion of bonds guaranteed by the Commonwealth.

On July 1, 2016, of the approximately $186.9 million debt service ($86.1 million in principal and $100.9 million in interest) due on the Authority outstanding bonds, all was paid except principal of $25.2 million. Of the outstanding bonds debt service requirements due in October 2016 of approximately $12.4 million, approximately $3.4 million remain unpaid. The amount of interest that was paid reflects amounts received from applicable interest subsidy programs. Of the outstanding bonds debt service due in January 2017 of approximately $12.4 million, approximately $3.4 million remained unpaid. The amount of interest that was paid reflects amounts received from applicable interest subsidy programs. Of the outstanding bonds debt service due in January 2017 of approximately $85 million, all remained unpaid. Of the outstanding bonds debt service due in April 2017 of approximately $12.4 million, approximately $3.4 million remained unpaid. The amount of interest

that was paid reflects amounts received from applicable interest subsidy programs. Of the outstanding bonds debt service due in July 2017 of approximately $12.4 million, approximately $3.4 million remained unpaid. The amount of interest that was paid reflects amounts received from applicable interest subsidy programs. On July 1, 2017, the Authority missed all of the outstanding debt services due of approximately $175.9 million, except interest of $1 million which were paid. On January 1, 2018, the Authority missed $101 million of interest payments due, except $9 million which were paid.

On July 1, 2016, the Authority paid interest and a portion of the principal due on its bonds from funds on deposit with the bonds' trustee and certain federal subsidy payments, but did not pay the full amount of principal due on such bonds. No further debt service payments are expected to be made while the moratorium remains in effects except from funds on reserve for the Authority Series L bonds and from federal subsidy payments.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FUNDING PROGRESS FOR POST-EMPLOYMENT HEALTHCARE BENEFITS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Annual Covered Payroll	Percentage of Covered Payroll
2012	$ -	$ 26,162,334	$ 26,162,334	- %	$ 52,933,339	49.4 %
2013	$ -	$ 20,522,160	$ 20,522,160	- %	$ 51,120,417	40.2 %
2014	$ -	$ 22,260,737	$ 22,260,737	- %	$ 58,039,372	38.4 %
2015	$ -	$ 20,381,941	$ 20,381,941	- %	$ 52,832,651	38.6 %
2016	$ -	$ 20,307,833	$ 20,307,833	- %	$ 49,973,803	40.6 %

OTHER SUPPLEMENTARY INFORMATION

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF BOND SINKING FUNDS ACCOUNTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Total	Bond Service Account	Reserve and Redemption Account
Government Facility Bonds			
Balance at July 1, 2015	$ 190,569,274	$ 190,569,274	$ -
Receipts:			
Debt service rental	251,251,479	251,251,479	-
Investment income	5,187	5,187	-
Deposits from other accounts	45,170,089	45,170,089	-
Disbursements:			
Payment of interest on bonds	(238,790,298)	(238,790,298)	-
Payment of principal on bonds	(82,000,000)	(82,000,000)	-
Balance at June 30, 2016	166,205,731	166,205,731	-
Office Buildings Bonds			
Balance at July 1, 2015	1,026,162	1,026,162	-
Receipts -			
Transfers from other accounts	2,052,325	2,052,325	-
Disbursements -			
Payment of interest on bonds	(2,052,325)	(2,052,325)	-
Balance at June 30, 2016	1,026,162	1,026,162	-
Total bond sinking funds	$ 167,231,893	$ 167,231,893	$ -

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF OPERATING RENTAL REVENUES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Office Buildings	
Debt service rental - bonds and notes	$ 68,070,648
Operating and administrative	59,073,238
Equipment reserve rentals	4,706,462
Total office buildings	131,850,348
Public Education Buildings	
Debt service rental - bonds and notes	201,514,060
Operating and administrative	53,409,696
Equipment reserve rentals	19,253,240
Total public education buildings	274,176,996
Health Facilities	
Debt service rental - bonds and notes	20,035,001
Operating and administrative	1,251,911
Equipment reserve rentals	927,327
Total health facilities	22,214,239
Operating rental revenue	428,241,583
Uncollectible amounts	(222,461,178)
Total operating rental revenue, net	$ 205,780,405

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico):

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Public Buildings Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated April 25, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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To the Board of Directors of the
Public Buildings Authority
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We consider the following deficiencies in internal controls to be material weaknesses:

I. Accounting and Financial Reporting for Pensions

The Authority has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (Statement 68)*. Accordingly, the Authority has not been able to determine and account for its proportionate share of net pension liability, deferred inflow of resources and deferred outflow of resources related to pension costs, and has not recognized the effect of current period changes in net pension liability, deferred outflow of resources and deferred inflow of resources as these relate to pension costs.

Accounting principles generally accepted in the United States of America require that pension related liability, deferred outflow of resources and deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expense. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, deficit, and pension expenses has not been determined.

Although the Authority's inability to implement the requirements of GASB 68 was due to the unavailability of the Employee Retirement System of the Commonwealth and its Instrumentalities (ERS) to provide the required information, we recommend management to coordinate and meet with its counterparties to be aware about the status of the required information and reinforce the need of this information. Once the information has been obtained, management should determine the effects that compliance with the requirements of GASB 68 has in the Authority's basic financial statements, and adjust the financial sattements accordingly.

Management's response:

The management of the Authority is not able to implement the requirements of GASB 68 and still waiting for The Employee Retirement System of the Commonwealth deliver the directions to account for its proportionate share of net pension liability, deferred inflow of resources and deferred outflow of resources related to pension costs.

II. Closing Procedures

Our audit procedures revealed that there were significant journal entries recorded after year-end financial reporting closing procedures were completed. The trial balance as of June 30, 2016 was provided to us in various occasions as a result of significant changes made to balances and transactions resulting from analyses

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performed by management. The Authority's management recorded 21 post-closing adjustments, which resulted in a decrease in net position of $27,429,533. Also, we proposed 12 audit adjustments that resulted in a decrease in net position of $250,915,101. The closing process at year-end required significant level of involvement of management since most of the work done is performed once a year as part of the year-end closing process and in occasions after year-end. Management should analyze certain balances and transactions periodically throughout the year to accelerate the account analyses and expedite the year-end closing process. This situation leads to a continuing and growing backlog of transactions and journal entries that are not posted into the accounting system. This accounting function disorganization will ultimately cause significant errors in the financial records and financial statements as well as allow possible irregularities. This situation should be corrected as soon as possible with the establishment of a system of consistent monthly reconciliations and closing procedures.

Management's response:

At the beginning of a fiscal year a monthly closing schedule is prepared. Each financial module is administered by an employee who is responsible to generate at the end of the month various reports in order to reconcile it with the general ledger. The Authority will develop a closing checklist that includes all the procedures to be performed to guaranty that each module is reconciled and any discrepancy has been adjusted. By reason of the accounting department of the Authority is understaffed, the present workforce is unable to timely addressed the required duties. The current resources assigned for operational expenses, including payroll, by the Office of Management and Budget, are insufficient. As soon as an increase in the budget has been obtained, management will consider hiring the needed employees.

III. Corporate Minutes

We noted that Authority's board minutes are not current. Minutes serve as a record of the events of the board meetings and should document all important topics discussed and decisions reached. Board minutes can be a crucial document in the event of future legal matters and in documenting compliance with regulatory issues. We suggest that the Board Secretary (or an appointed record-keeper) be responsible for taking board minutes on time, so that every meeting will have one set of corresponding minutes. Minutes from January 2017 to January 2018 were not prepared by the secretary of the Board of Directors.

Management's response:

Management will send a communication about the discovery to the Chairman of the Board of Directors so that it becomes aware of the finding and establish with the Board's Secretary the action plan to follow.

IV. Deposits to Bond Sinking Funds Accounts

We noted that on July 1, 2016 the Authority failed to make deposits to the bond sinking funds account with its respective fiscal agent, which constitutes an event of default under the Resolution 468. This event resulted in a deficit of funds restricted for debt service amounting to $19,758,829 at June 30, 2016. We recommend management to implement internal controls to ensure deposits to the bond service and redemption accounts be on time and to timely evaluate compliance with covenants as per Resolution 468.

Management's response:

The deficit of funds restricted for debt service is due to Public Policy and is not a result of PBA's absent of internal controls. Pursuant to the Moratorium Act the Governor suspended the obligation of the Commonwealth and its departments and agencies to make lease payments to PBA, suspended PBA's obligation to transfer pledged funds to the fiscal agent under its bond resolutions, and suspended payment of interest and principal on all bonds and notes guaranteed by the Commonwealth. Agreeing to these circumstances, there are no internal controls that the management can implement in order to evaluate compliance with covenants as per Resolution 468.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the following deficiencies in internal controls to be significant deficiencies:

I. *Capital Assets*

We noted that there is no a timely procedure for reconciling construction in progress records to the general ledger on a regular basis. The lack of such a procedure could lead to inaccurate reporting of capital asset cost, including capitalizable interests and expenses and accumulated depreciation in financial statements. This issue could result in errors in the financial statements. To prevent the need for major adjustments to the capital assets accounts at the end of each year, we suggest that the general ledger capital asset accounts be reconciled to the detailed records on a monthly basis.

Management's response:

The Comptroller Office maintains periodical meetings with the Construction and Development Area for the evaluation of projects under construction and to confirm that completed projects were transferred from CIP to Fixed Assets. To avoid that repairs and maintenance items be capitalized, the Authority implemented a new form that requires a brief description of the project to be develop, with this information the Finance Division will determine if the project has to be capitalized

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or recorded as an expense. The interest and administrative cost computation to be capitalized in the Construction in Progress (CIP) account is performed by the Projects Module, according to some programming rules. When we evaluate the GASB 62 requirements some elements that have to be considered where not incorporated in the calculation. The external auditors issued a memorandum that established the methodology to be followed. During 2017 a process was programmed in the system and will implement for the audit 2016-2017, in order to comply with GASB 62.

II. Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is not being analyzed periodically. We recommend that management develops a detailed methodology and prepares an analysis of uncollectible accounts at least on a quarterly basis. This methodology and analysis should consider delinquency experiences, as well as any specific information that management may develop about the collectability of significant accounts, including indications of financial difficulties. Management should adjust the allowance for doubtful accounts and properly support the conclusions reached and assumptions presented with the final objective of ensuring that the estimated losses from uncollectible accounts receivable are fairly stated and recorded.

Management's response:

Because of the unpredictable situation of the Commonwealth of Puerto Rico, the circumstances are very volatile, daily changes the numbers. The allowance for doubtful accounts analysis depends on the Office of Management and Budget annual accounts payable's confirmation. Once confirm that they will not pay, the Authority proceeds to make the accumulation. As long as this situation persists, the Authority will continue preparing the analysis at time required by the auditors.

III. Bank reconciliations

During our audit procedures we noted that December 2015 and June 2016 bank balances were not reconciled to the general ledger on a timely basis, in addition there was no written documentation as evidence of the corresponding review performed on bank reconciliations. These reviews are an integral part of the internal control structure and the lack of documentation that these processes took place weakens the system. We recommend that all of the bank accounts be reconciled on monthly basis to the general ledger and that all suspicious reconciling items be promptly investigated and adjusted with adequate explanations. Each review should be documented with the initials or signature of the reviewer and the date on which the review was performed.

Management's response:

Management already sent to employees a communication with the closing dates. As a result of a lack of employees, the Authority failed to execute it properly.

To the Board of Directors of the
Public Buildings Authority
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO Puerto Rico P.S.C.

San Juan, Puerto Rico

April 25, 2018
Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2018
Stamp No. E315302 of the P.R.Society of
Certified Public Accountants has been
affixed to the file copy of this report